

American Journal of Economics and Sociology, Inc.

Selected Elements of Henry George's Legitimacy as an Economist

Author(s): Aaron B. Fuller, III

Source: *American Journal of Economics and Sociology*, Vol. 42, No. 1 (Jan., 1983), pp. 45-61

Published by: [American Journal of Economics and Sociology, Inc.](#)

Stable URL: <http://www.jstor.org/stable/3486319>

Accessed: 20/12/2013 15:46

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <http://www.jstor.org/page/info/about/policies/terms.jsp>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.



American Journal of Economics and Sociology, Inc. is collaborating with JSTOR to digitize, preserve and extend access to *American Journal of Economics and Sociology*.

<http://www.jstor.org>

Selected Elements of Henry George's Legitimacy as an Economist

By AARON B. FULLER, III

ABSTRACT. *Henry George's* legitimacy as an *economist* has been denied in much of the literature of the history of economic thought and by some economists who were his approximate contemporaries. These denials have shaped the prevailing negative view of George's *economics*. An examination of selected representative evidence from George's work fails to support the negative view. George's positions on "The Study of Political Economy," eloquently presented in his 1877 speech to the faculty at the University of California, are consistent with (and predate) "accepted," "orthodox," "legitimate" views of *political economy* expressed a decade and more later by *J. Laurence Laughlin* and *Charles F. Dunbar* in early classic articles that signified the emergence of economics as an identifiable profession in the United States. Other evidence reveals that George avoided the *Ricardian* error of failing to understand the role of *factor and product substitution* in the process of market equilibrium adjustments.

I

THOSE WHO ARE FAMILIAR with Henry George's writings would not be quick to accuse him of exercising an excess of rhetorical restraint in his descriptions of economic events. A representative example quoted here is taken from a later chapter of *Progress and Poverty*, where he unabashably details the immodest results he expects to flow from his policy proposal for taxing land rent.

What I, therefore, propose, as the simple yet sovereign remedy, which will raise wages, increase the earnings of capital, extirpate pauperism, abolish poverty, give remunerative employment to whoever wishes it, afford free scope to human powers, lessen crime, elevate morals, and taste, and intelligence, purify government and carry civilization to yet nobler heights, is to appropriate rent by taxation.¹

It is probably reasonable to suggest that George's rhetorical excesses, such as

*[Aaron B. Fuller, III, is an economist and a managing senior associate in the international consulting firm of Booz, Allen and Hamilton, Inc., 2361 South Jefferson Davis Highway, Arlington, Va. 22202, and an adjunct professor of economics in the Washington, D.C. area. The views expressed here do not necessarily represent those of Booz, Allen and Hamilton.] A paper presented at a joint session held to commemorate the centenary of the publication of Henry George's classic *Progress and Poverty*, by the American Economic Association and the History of Economics Society in Atlanta, Georgia, December 30, 1979, concluding the Association's three-day annual meeting. The session was arranged and chaired by Dr. Mason Gaffney, professor and chair of the department of economics, University of California, Riverside.

American Journal of Economics and Sociology, Vol. 42, No. 1 (January, 1983).

0002-9246/83/010045-17\$00.75/0

© 1983 American Journal of Economics and Sociology, Inc.

this, explain, at least in part, the unwelcome reception with which his writings were met by then contemporary political economists. George was clearly advocating a political program, and in order to gain attention for his proposals, he did not hesitate to write in hyperbole, a standard device of journalists, political figures, and others whose aim is to influence public opinion.

George's rhetoric was influential, permitting him to achieve some of his goals. *Progress and Poverty* was widely read and discussed, George himself was nearly elected mayor of New York City on two occasions, and his writing stimulated political movements for land taxation around the world. However, his success at influencing public opinion may have been purchased at the price of intellectual respectability among the economists of his day. The low esteem in which George is held as an economist has continued into this century and exists as the dominant theme in the literature of the history of economic thought.

The degree to which this low esteem is justified by the substantive contents of George's writing is an open question to which there is not a definitive answer at this time. What is clear is that on a careful reading of George's work, there is a dichotomy between the rhetorical excesses so thoroughly and frequently berated in the literature, and George's specific views about and uses of economic theory. Those who would explicitly or implicitly degrade George's competence as an economist because of his rhetorical excesses have a heavy burden of proof to shoulder, a burden of proof that has not been carried in the existing literature.

In fact, it is the speculative proposition of this paper that the facts of George's analytical competence as an economist stand quite independent of the rhetoric he used to advance his cause. A recognition of this independence is a precondition to appreciating George's legitimacy as an economist. Although not developed here, the recognition of the independent validity of much of George's economics is also a necessary condition to a proper understanding of George's hyperbole.

In order to present some of the "facts" of George's analytical competence in the brief space available, we examine two issues: 1) how did George view political economy as a science; 2) did George avoid the Ricardian "error" and understand the role of factor and product substitution as the fundamental equilibrating device of a market economy.

II

IN ORDER TO EXAMINE George's view of political economy as a science, we can turn to the speech he delivered at the University of California in March

of 1877, appropriately titled "The Study of Political Economy."² The speech has been all but ignored in appraising George's competence as an economist, and yet, in a few brief pages he outlined the views on political economy that he implemented in writing *Progress and Poverty*, *Protection or Free Trade*, *The Science of Political Economy*, and other works.

The contents of George's Berkeley lecture alone cannot, of course, make him a legitimate political economist. But it is equally clear that his thoughts are consistent with what we could expect a professional practitioner of political economy to say. As evidence of this, we can examine the contents of the speech and contrast them with similarly titled articles that appeared as much as fifteen years later and were themselves evidence of the emerging professionalism in American economics. The articles are "The Study of Political Economy in the United States," by J. Laurence Laughlin, "The Reaction to Political Economy," by Charles F. Dunbar, and "The Academic Study of Political Economy," also by Dunbar.

George's lecture was delivered with the understanding that he was being considered for an academic appointment as the University's first political economist. Although he did not receive the appointment, the speech itself is interesting because it reveals George to be a perceptive expositor of political economy as a discipline. The speech does not reveal George to be a rabble rouser or a radical, and throughout it lacks the rhetorical exaggeration frequently associated with George's work.

His stated purposes in the speech were: 1) to show the simplicity and certainty "of a science too generally regarded as complex and indeterminate"; 2) to point out the ease with which political economy could be studied; and, 3) to suggest "reasons which make that study worthy of your attention." With respect to the latter purpose, he further identified three categories of reasons why the study of political economy was important.

First, he mentioned the reasons of which "it is hardly necessary to speak," those that deal with primary economic issues including wages, capital, trade regulations, currency and finance, taxes, and public expenditures — "in short, everything that can in any way affect the amount of wealth which a community can secure, or the proportion in which that wealth will be distributed between individuals."

His second reason why the study of political economy was important related to the policy applications of economic reasoning. "Though not the science of government, it is essential to the science of government."

The third reason was distinctly Smithian and reflected the influence of Adam Smith on George's perspective of the role of political economy. George

explained that though political economy “takes direct cognisance only of what are termed the selfish instincts, yet in doing so it includes the basis of all higher qualities. . . . And as the development of the nobler part of human nature is powerfully modified by material conditions, if it does not absolutely depend on them, the laws sought for by political economy are the laws which at least control the mental and moral as well as the physical states of humanity.” In Smithian terms, this is the expression of the relationship between self-interest and benevolence, where commercial society is viewed as the embodiment of natural liberty. It is from Smith that George derived his understanding of the spontaneous processes of free markets.

After stating these reasons for the study of political economy, George rhetorically queried the audience as to why “a science so important is so little regarded?” George credits two influences with the common disregard of political economy; one involves the nature of the science itself, and the other involves the manner in which it is “cultivated.” The nature of the science is to develop conclusions which “involve pecuniary interests,” and these interests will dispute or ignore the conclusions of political economy when they are in conflict with them. The manner in which it is cultivated is the explanation of complex phenomena, and the inherent complexity of the subject matter “makes it comparatively easy to palm off on the unreasoning all sorts of absurdities as political economy.”

Although complex phenomena open the possibility for confusion and false explanations to be promulgated as truth, George explains that political economy provides a counterforce which organizes the complexity into recognizable patterns that fit broad generalizations. Such a view is quite similar to that expressed by Stigler. In his discussion of “The Influence of Events and Policies on Economic Theory,” Stigler asserts that “the vast majority of all current—I shall call them popular—social economic problems are routine from the viewpoint of economic theory. . . . the facts of the case may vary, or the juxtaposition of two policies may offer complications, but fundamentally no new demands are put on the theory.” George’s expression of the same idea is that “although political economy deals with various and complicated phenomena, yet they are phenomena which may be resolved into simple elements, and which are but the manifestations of familiar principles.” What is the process by which these familiar principles are determined?

George explains that the processes of political economy “consist chiefly in analysis.” These processes of analysis “can never predict exact results but only tendencies” because all the independent variables cannot be isolated in the analytical process. This emphasis on analysis and tendencies is characteristic of George’s later work, and is brought forward and expanded upon eloquently

in *The Science of Political Economy* where George explains the character of economics as a positive science.

George further explained the process of analysis as a “mental” or “imaginative experiment.” He said that such a process is particularly necessary in political economy because “in the study of political economy we cannot use that potent method of experiment by artificially produced conditions which is so valuable in the physical sciences.” Instead, in political economy “you may separate, combine, or eliminate conditions in your own imagination, and test in this way the working of known principles.” George is unequivocal when he states that such analysis “is the great tool of political economy.”

George makes several other points in the speech which will not be expanded upon here, including discussion of the need to avoid logical pitfalls that we now call *post hoc ergo propter hoc* reasoning and the fallacy of composition, that education is not the learning of facts but the development and training of mental powers, and an application of what has come to be called “methodological individualism.”

George’s Berkeley speech, coming in 1877, is a remarkably consistent and accurate portrayal of accepted views of political economy as a science. This can be seen by turning to the papers by Laughlin and Dunbar. Laughlin’s article, almost identically titled to George’s, was the maiden piece in the new *Journal of Political Economy* in December, 1892,³ fifteen years after George’s presentation. Laughlin’s opening sentence contains one of the central themes of George’s discussion: “the fact must be frankly acknowledged that the influence of scientific economic thinking in the United States has little or no authority with the masses of the people.” One of George’s explanations for this condition (in 1877) was that “the conclusions of political economy involve pecuniary interests, and thus thrill directly the sensitive pocket-nerve.” Laughlin provided the same explanation (in 1892) when he noted that “advance in the subjects which touch human interests profoundly, more than in the physical sciences, is likely to be retarded by personal and sentimental reasons.”

George’s other explanation for why the public ignored the conclusions of political economy was that the complexity of economic phenomena made it relatively easy to “palm off on the unreasoning all sorts of absurdities as political economy.” Laughlin similarly declared that “vast masses of even intelligent people know little or nothing as to the scope, method, and principles of scientific economic work,” and that as a result “never before in our history have venerable fallacies and misinterpretations of economics been more widely current.”

What is the method of political economy? Laughlin declares that “the

nature of economic principles may be illustrated by comparing them with the principles of thermodynamics." He explains that there is a body of abstract rules "according to which all steam-engines must necessarily be constructed." By analogy, there is a body of abstract rules to which all economic events must conform. George provided a similar view of the fundamental abstract generalizations that make up the political economist's tools. George stresses that the application of these tools cannot produce exact results, only tendencies. Laughlin proceeds to explain, in words similar to George's, that political economy is not "a body of concrete truth"; instead, "it is a means of analyzing the play of economic motives, of measuring their force, of discovering and explaining the relations between concrete truths, and of ascertaining their causes and effects." In a footnote to this idea he cites Cairnes to the effect that economic prediction is not of events but of tendencies.

In addition to these and other similarities between central points made in George's lecture and Laughlin's article, it is relevant to note that Laughlin discussed George in two places in the article. The first instance comes in a discussion of the reasons why the teachings of political economy are ignored by the public. Besides the two explanations for the low esteem of economics that George and Laughlin shared, Laughlin offers a curious form of intellectual determinism which says that "the great working classes can be reached only by the literature which comes from within their own ranks." Then he explains that "the exceptional circulation of Henry George's *Progress and Poverty* was largely assisted by the fact that its author himself came from the ranks of the working-men."

This could be interpreted as a compliment to George's abilities in writing and communication, but Laughlin makes it clear that no such compliment is intended. In a previous passage he declared that "expositions by men of high abilities and scholarship have had little or no influence on thinking in general." That George did have influence is evidence that Laughlin considered him to be lacking in high abilities and scholarship.

Later in the paper, in a discussion of how various economists (Ricardo, Cairnes, Smith, Malthus, McCulloch, Dunbar, Mill) approached the question of the degree of State interference in the economy, Laughlin referred to the somewhat different character of "the cult connected with the writings of Henry George." He admitted that "to Henry George must be given the credit of having stimulated the interest in Political Economy by his writing to an extent not to be assigned to any other writer in this country."

But this is as far as the credit to George went. Laughlin was willing to admit the obvious, that George's writing stimulated thought about political

economy, but he had nothing positive to say about the quality of George's thought itself. Even if George's Berkeley address with its similarities to Laughlin's paper was unknown to Laughlin, at the least *Progress and Poverty* was not unknown to him, and many of the ideas that parallel Laughlin's in the Berkeley lecture are repeated and expanded upon in *Progress and Poverty*.

It is unreasonable to condemn Laughlin for not reviewing the whole of George's ideas in his paper; that would have been inconsistent with his purpose. But it is reasonable to question Laughlin's selective criticisms of George as one who achieved popular recognition because he was a member of the working class when many of the ideas that Laughlin expressed in his review of the study of political economy are identical to George's ideas in his almost-identically-titled Berkeley address. By omission and innuendo Laughlin's treatment of George was unbalanced and inconsistent with the substance of George's work. Unfortunately for George's reputation as a legitimate economist, such unbalanced treatments are not uncharacteristic of both economists who were his approximate contemporaries and later writers who have addressed the quality of his economics.

Laughlin's article also relates directly to the issue of George's professionalism. It is clear that George's thoughts on the study of political economy were similar in several specific instances to Laughlin's. George's were presented in 1877 when the study of political economy was considerably less developed as an academic institution than in 1892 when Laughlin's article appeared.

We do not need to take off on a tangent and argue that this is evidence that George "anticipated" the academic emphasis on the scientific nature of political economy as an analytical science that sought cause and effect relationships. The substantive contents of George's address stand on their own merits. The fact that George expressed these ideas in 1877 is a positive indication that George understood and expressed, in eloquent terms, a view of the study of political economy that was consistent with what became the accepted orthodox view of spokesmen of the economics profession like Laughlin. Recalling that Laughlin's article was the introductory piece in the new *Journal of Political Economy*, it is reasonable to suggest that it was intended to be a setpiece for the contents of the new journal. Laughlin's final paragraph suggests as much.

From this brief review of the conditions of practical economic problems, it can be readily seen why new means of communication between the investigator and the public should be created . . . —it has seemed that a distinct place exists for a journal of political economy which, while welcoming the discussion of theory, may be devoted largely to a study of practical problems of economics, finance and statistics.

George's review of the study of political economy before the students and faculty of the University of California in 1877 showed marked similarities with Laughlin's review of the study of political economy before an expected audience of readers of the new professional journal in 1892. If Laughlin's views were valid at the later date, George's views were no less valid at the earlier date. George's thought was consistent with the themes expressed in the founding of one of the institutional signposts of the growing professionalization of political economy. Whether George was a founder of the new journal is irrelevant to whether his thought was consistent with the outlooks of the founders of this new journal of professional orthodoxy.

Laughlin's article relates to George's legitimacy in another respect as well. Laughlin's peculiar assertion that to have influence with a large segment of the public a writer must be of the same social class as that segment is on the face of it so unscientific as to deserve little attention. At the very best it was an hypothesis that would be difficult to test, and Laughlin offered no evidence to substantiate his use of it.

However, Laughlin's social class theory of intellectual influence was applied directly to George. Forced to admit the obvious with regard to George's success as an economic author, Laughlin qualified the significance of that success by his assertion that George could not have been possessed of "high abilities and scholarship" because he was so successful with the mass audience. In Laughlin's view, it was certain "that expositions by men of high abilities and scholarship have had little or no influence on thinking in general." By innuendo George's credentials as a legitimate orthodox economist were held suspect, not because of what he said but because he was a working class man.

Yet if George had received the appointment to the Berkeley position as political economist, Laughlin's tortured reasoning would have been substantially more difficult to sustain. George would have then been an academic, and, working class man or not, Laughlin would have had an additional characteristic to explain away. All the while, whether he was an academic or a railroad engineer or whatever, George's ideas in his Berkeley address were comparable to those in Laughlin's journal article. That they were ignored by Laughlin as legitimate is a testament to Laughlin's professional judgment, not George's.

Laughlin's innuendo that George's work was unacceptable because he was merely a working class man, untrained and obviously unscientific, is repeated many times in the literature. That the force of such an argument could be reduced by the kind of job George held is evidence of the unsubstantial character of the view itself.

III

TWO OTHER EXAMPLES of why the substantive contents of George's Berkeley lecture do not warrant inattention in terms of the standards of legitimate, orthodox economics of the day are provided by two articles by Charles F. Dunbar. The first, "The Reaction in Political Economy," was the maiden article in *The Quarterly Journal of Economics* in October, 1886.⁴ The second appeared in the same journal in July, 1891 under the same title as George's lecture and Laughlin's article discussed above: "The Academic Study of Political Economy."⁵

Dunbar's central purpose in the first article is "to review briefly the position held by the deductive school, to consider some of the shortcomings by which the way for reaction has been made easy, and to show what appear to be the characteristic tendencies and real drift of the new movement" [referring to the "inductive" method in political economy]. Dunbar's discussion of the "scientific method" in political economy, the deductive method, is similar both in form and content to George's discussion in the Berkeley lecture. According to Dunbar,

the method starts from a few simple premises, collected by observation of the nature of man and of his environment, draws from these premises a series of logical conclusions, verifies these conclusions by fresh observation and comparison, and thus ascertains certain relations of cause and effect, which are termed laws.

George states that "the premises from which it [political economy] makes its deductions are truths of which we are all conscious and upon which in everyday life we constantly base our reasoning and our actions."

Dunbar notes that the process of analysis consists of the isolation of the relevant forces that influence a particular action, and that "this isolation of the force first brought under examination is effected by hypothesis, because it cannot be effected by experiment, as in physical science." George expresses the same idea but in richer language and richer implication.

And, although in the study of political economy we cannot use that potent method of experiment by artificially produced conditions which is so valuable in the physical sciences, yet, not only may we find, in the diversity of human society, experiments already worked out for us, but there is at our command a method analogous to that of the chemist, in what may be called mental experiment. You may separate, combine, or eliminate conditions in your own imagination, and test in this way the working of known principles.

George's implications are richer because he offers two processes by which hypotheses may be developed in political economy. One, the method of analysis or theorizing, is the same as suggested by Dunbar. The other is best

described as a process of comparing economic systems in the real world to determine differences and similarities between and among their operations. These are the experiments "already worked out for us."

There are other points of agreement between Dunbar's article that launched the new *Quarterly Journal of Economics* in 1886 and George's lecture, and except for one issue, there is nothing in George's lecture that is inconsistent with Dunbar's views. The exception is a confusion on Dunbar's part to which George did not fall victim.

In discussing economic theory, Dunbar explains "that, while the connection between assumed premises and the logical conclusion is immutable, so much of the economist's conclusions as are based on conditions peculiar to his own time must lose a part of their importance as years pass." In essence, he argues that it is possible to produce internally consistent logical arguments or theories that are in fact only relevant to a particular set of circumstances, to a particular time and place. He emphasizes this with his statement that,

to this extent, we may easily agree with the proposition so ably supported by Dr. Seligman, that "the economic theories of any generation must be regarded primarily as the outgrowth of the peculiar conditions of time, place, and nationality," and that "no particular set of tenets can arrogate to itself the claim of immutable truth."

If Dunbar were only claiming that the research interests of economists are conditioned by the environment in which they live, his point might be debatable but harmless. However, his "easy agreement" with Seligman that theories themselves are not immutable truths but instead are useful explanations primarily for particular conditions of time, place, and nationality, is a dangerous notion that denies the generality of theorizing. Under such an agreement as to the meaning of theory, theory degenerates from explanation to rationalization. The distinguishing characteristic of a true theory, an abstraction from reality that focuses on the relevant explanatory variables to permit prediction, is that the theory is general in application.

"Local" theories that apply to particular conditions of time, place, and nationality, as Dunbar and Seligman suggest most theories do, are "simply uninteresting from the scientific viewpoint" in Stigler's apt phrasing. As pointed out earlier in the discussion of George's Berkeley lecture, he entertained no similar misconceptions about the nature of theorizing. He clearly saw a theory as a generalization that resolved "various and complicated phenomena" into simple elements "which are but the manifestations of familiar principles."

The second Dunbar article to be examined is "The Academic Study of Political Economy," and as the title suggests Dunbar describes the status of

political economy as an academic subject in the institutions of higher education. His particular concern is with explaining that political pressures are involved in appointments to academic positions in political economy as well as in considerations of what is to be taught in political economy courses.

Dunbar decries the fact that it is possible to observe cases where the political opinion of a political economist, such as a stand for or against protection or free trade, is the determining factor in the decision to hire or fire for an academic position. He was concerned that professors would modify their conceptual results to fit the dictates of their employers' requirements as to political opinions. George similarly criticized such actions when he declared that "even the intellectually courageous have shrunk from laying stress upon principles which might threaten great vested interests; while others, less scrupulous, have exercised their ingenuity in eliminating from the science everything which could offend those interests."

Dunbar explained that for scientific detachment the political opinions of a political economist were irrelevant, and that to the degree that political opinions colored the conceptual analysis the analysis was less than useless—it was objectionable on its own grounds. George pursued a similar argument by explaining that under such conditions political economy becomes laughable as a scientific endeavor, it becomes "a field wherein any one may find what he pleases."

The antidote to the sickness of political economy exhibited by normative judgments that influenced analytical results was, according to both Dunbar and George, a heavy dose of causes and effects strictly adhered to. As examples of issues that had been clouded by the interference of strong normative preferences that overrode the results of analyses of causes and effects, George focused on the wages fund doctrine and protection versus free trade. He also discussed "the belief that a dollar's worth of gold is more valuable than a dollar's worth of anything else," and the effects of Chinese immigration, "cheap labor", on the absolute and relative levels of community income, particularly with regard to San Francisco and the western United States.

Dunbar spent much of his time examining the protection versus free trade issue because he saw it as the primary stimulus for the interference of political preferences in the academic integrity and freedom of political economists. But he recognized that normative judgments could be expected to influence the supposed scientific reasoning of economists concerning socialism, "the economic and social effects of private ownership of land; the effects and the claims for preference of different methods of taxation, direct or indirect, upon property real or personal, and proportional or progressive; the choice between

government currency and bank paper, and between the gold standard and the free coinage of silver," and other such questions.

In addition to these themes that were common and significant in the Dunbar piece and George's lecture, both writers emphasized the analytical nature of political economy in much the same way as shown in the discussion of the first Dunbar article earlier, and both also discussed the importance of the study of political economy to the student. Dunbar advised the student of political economy "to read, not to contradict and refute, nor to believe and take for granted, but to weigh and consider" [he was quoting what he called "Bacon's injunction"]. George's admonition was even more direct: "my object will be merely to induce you to think for yourselves." Both agreed that "education is not the learning of facts; it is the development and training of mental powers." Both also agreed that political economy "aims to discover the forces which determine certain phenomena of society, their direction, strength, and mutual relations . . . , in any case a study of cause and effect." Finally, both agreed that "this is the science which of all sciences is of the first importance to us," because "it is keenly felt that on the right answer of these questions [of political economy] must depend not only the future progress of society, but also the preservation of much that has been gained by mankind in the past."

IV

GEORGE'S BERKELEY LECTURE is relevant to the issue of his professionalism both because of its substantive contents and because it establishes the proper historical perspective for George's economics. As seen in the preceding discussions, these substantive contents reveal legitimacy and orthodoxy in George's thought in terms of the "absolutist" standards of contemporary economics as well as in terms of the "relativist" standards represented by the Laughlin and Dunbar articles. Given these standards, the proper historical perspective is identified in the emergent nature of the economics profession in 1877.

George's lecture came eleven years before the first Dunbar article, fourteen years before the second, and fifteen years before the Laughlin piece. The professional institutions of economics were much less advanced in the 1870s than in the 1880s and 1890s. As examples, the *Verein für Sozialpolitik* (1872) was the only major institutional structure established during the 1870s, and that was on the continent so it did not have an impact on American economics until the 1880s and 1890s when Americans who had studied in Europe, particularly Germany, became familiar with it. The American Economic As-

sociation (1885)⁶ and the Royal Economic Society (1890) came later, as did the London School of Economics (1895). New journals devoted to “technical” economics were created in the 1880s and 1890s, including the *Quarterly Journal of Economics*, the *American Economic Review*, and the *Journal of Political Economy* in the United States, the *Economic Journal* in Britain, and continental ventures such as the *Revue d'économie politique*, the *Giornale degli Economisti*, the *Ökonomisk Tidskrift*, Schmoller's *Jahrbuch*, *Archiv für Sozialwissenschaft und Sozialpolitik*, and the *Zeitschrift für Volkswirtschaft, Sozialpolitik und Verwaltung*. George was not a participant in these institutional manifestations of the growing economics “profession,” and on this account he is correctly described as being physically an “outsider.” The “insiders” were those who were developing these institutions, participating in them, and creating and reinforcing their own professional identities.

With respect to academic economics, Parrish notes that “economics, before 1870, was an obscure topic struggling for survival in the curricula of American colleges and universities.”⁷ The decade of the 1870s was a transitional decade when “the first glimmerings of a formally organized profession emerged in this country [the United States].” George did not receive the University of California appointment to the political economy professorship, but if he had he would have automatically qualified as a member of the emerging institutional superstructure of economics. Yet the conceptual understanding of economics as an analytical pursuit expressed in the 1877 speech in consideration for the appointment, stands independent of whether he received the appointment or not.

Considering the substantive contents of George's Berkeley address, not improved upon or contradicted by “legitimate” economists such as Dunbar and Laughlin in their parallel treatments of “the study of political economy” one and two decades later, George's speech was advanced for its day. Even though he did not belong to the associations or write for the journals, even though he did not hold an academic position, George's Berkeley address reveals a substantial degree of self-consciousness about the standards of professional thought on his part. In his conceptual understandings, George was very much “professional” in his approach to economics. His advice to students and faculty was the same as that offered by Laughlin and Dunbar, but their advice came much later than George's.

An individual's self-consciousness of a professional identity as an economist has been cited by Coats as one of the elements in the “customary definitions” of what professionalism means.⁸ Coats, and others whose thoughts on professionalism he was summarizing, were particularly interested in the so-called

marginal revolution and the relationship of the relative intellectual rigor of this theoretical advance to the emerging professionalism in economics during the 1870s, 1880s and 1890s. Goodwin suggested that "marginalism was the first body of economic thought which provided the essential barrier of entry to the profession," and the interactions between marginalism and professionalization are explored in substantial detail by Goodwin, Coats, and others.⁹ It is, however, tangential to the appreciation of George's professionalism whether the institutionalization of economics was a precondition for a successful marginalism, or whether a successful marginalism created the necessary intellectual complexity that would draw like-minded scholars together within the boundaries of a walled encampment.

George's professional consciousness of the requirements of analytical economics was thriving and robust in 1877, and although he was physically outside the professionalization of the discipline, he was intellectually within the boundaries. George was taking professional positions about economics at the very time when professionalism was emerging in American economics.

V

A MORE SPECIFIC ISSUE concerning the legitimacy of George's economics is whether he avoided the Ricardian "error" of failing to understand the role of factor and product substitution in equilibrating market economies. Although it is incorrect to identify George as another "independent" discoverer of marginal productivity theory, he does clearly understand that competitive equilibrium in resource and product markets is the result of substitutions, and further that the substitutions are made at the margin. As some illustrative evidence that is not intended to be definitive of the issue, we can compare several statements taken from Stuart Wood, a legitimate independent "discoverer" of marginal productivity theory, and George in *Progress and Poverty*.

It should be stressed that Wood was not selected for comparison with George primarily because he was an approximate contemporary of George's. Wood's statements were selected because they are useful narrative statements of marginal productivity theory that are expressed in language similar to that used by George. The circumstance that Wood's statements were roughly contemporary with George's (Wood's followed George's by ten years) is a separate issue that relates to the proper historical perspective into which George's economics ought to be placed, and this issue is not addressed here.

In essence, the comparison with Wood is intended to represent a specific approach to the question of George's legitimacy as an economist by arguing that he addressed similar problems and made similar presuppositions about

the basic economic processes as did recognized "legitimate" economists. It seems clear that in 1877–79 when he was writing *Progress and Poverty*, George was struggling with both classical and neoclassical elements in his economics, and the comparison with Wood offers specific evidence of the latter.

Although George's language is more picturesque and intuitive than Wood's, that is, much like Adam Smith's, the essential ideas are similar in the sense that relates to our conception of economic orthodoxy; meaning that both writers are addressing similar problems using similar underlying pre-suppositions about economic processes. One of Wood's passages describes "inter-industrial" substitution:

All articles are produced by the cooperation of labor and capital, but it may be that no two articles are produced by exactly the same proportions of each. As consumption happens to be of those articles into whose production labor enters more largely, or of those other articles into whose production the use of capital enters more largely, just in such proportion does it occasion a large or a small demand for labor.¹⁰

Wood's statement is composed of three elements: first, that articles are produced by both labor and capital; second, that different articles may require different labor to capital ratios; third, that the consumption of high or low labor to capital ratio products occasions larger or smaller demands for labor. With these three basic propositions established for his argument, Wood presents the final marginal inter-industrial substitution element, where the technological relations between labor and capital and demand factors are combined to determine equilibrium. In Wood's words,

If the price of labor is excessively high, the price of those commodities into which labor most largely enters will also be high, and the demand for them will slacken. Employers will withdraw capital from their production in order to embark it in industries using a greater proportion of auxiliary capital. The demand for labor and its price will fall, and the use of auxiliary capital will grow at its expense until equilibrium is restored.¹¹

George's statements of this equilibrating process are not quite as compact as Wood's, but they contain all the same elements. George clearly recognizes Wood's first point, that a product is "the produce of a given amount of labor, co-operating for a stated time with a certain amount of capital."¹² George's statement is even superior because it includes the recognition that production is a rate per unit of time. Wood's second point concerning different labor to capital ratios is given in the context of George's remarks in his discussion of "the law of interest," where George is emphasizing the adjustment of the economy to equilibrium, and is noting the fact that it arrives there through the adjustments of various industries where "particular wages and particular interest" reflect different resource combinations in production.¹³ Wood's third point is that the demand for products with high or low labor components

results in a high or low demand for labor. George's comparable statement is that,

. . . it is perfectly correct to say that the wages in different occupations will vary relatively according to differences in the supply and demand of labor—meaning by demand the call which the community as a whole makes for services of the particular kind, and by supply the relative amount of labor which, under the existing conditions, can be determined to the performance of those particular services.¹⁴

Finally, we have George's statement of the equilibrating process which involves substitutions between capital and labor.

Now, this normal point of interest, which lies between the necessary maximum and the necessary minimum of the return to capital, must, wherever it rests, be such that all things (such as the feeling of security, desire for accumulation, etc.) considered, the reward of capital and the reward of labor will be equal—that is to say, will give an equally attractive result for the exertion or sacrifice involved.¹⁵

George refers again to "this equilibrium at which both [interest and wages] will represent equal returns to equal exertions." This equilibrium is obtained by substitution between labor and capital that "has upon the relations of capital and labor the same equalizing effect that a flywheel has upon the motion of machinery, taking up capital when it is in excess and giving it out again when there is a deficiency." More specifically, "any tendency on the part of interest to rise above the equilibrium with wages must immediately beget not only a tendency to direct labor to the production of capital, but also the application of wealth to the uses of capital; while any tendency of wages to rise above the equilibrium with interest must in like manner beget not only a tendency to turn labor from the production of capital, but also to lessen the proportion of capital."

This comparison of George and Wood on factor market equilibrium shows that both men were discussing the same basic problems of substitution among productive factors, wage and interest determination, and factor price and quantity equilibrium in the market. The fundamental presupposition underlying the analyses of both is the existence of free competitive markets where prices allocate resources to their highest valued uses. George's image of factor market equilibrium is richer than Wood's, with the analogy of the operation of the equilibrium process to that of a flywheel evoking the image of a dynamic equilibrium process. Wood represents one specific example of neo-classical orthodoxy, and it is our argument that George too reflects the same orthodoxy with respect to the notion of factor market equilibrium.

Notes

1. Henry George, *Progress and Poverty* (New York: Robert Schalkenbach Foundation, 1954, 75th Anniversary edition), pp. 405–6.
2. Henry George, "The Study of Political Economy," in *The Complete Works of Henry George* (New York: Doubleday, 1904), Vol. 8, pp. 135–53.
3. J. Laurence Laughlin, "The Study of Political Economy in the United States," *Journal of Political Economy*, 1 (December 1892), pp. 1–19.
4. Charles F. Dunbar, "The Reaction in Political Economy," *Quarterly Journal of Economics*, 1 (October 1886), pp. 1–27.
5. Charles F. Dunbar, "The Academic Study of Political Economy," *Quarterly Journal of Economics*, 6 (July 1891), pp. 397–416.
6. A. W. Coats, "The First Two Decades of the American Economic Association," *American Economic Review*, 50 (September 1960), pp. 555–74.
7. John B. Parrish, "Rise of Economics as an Academic Discipline," *Southern Economic Journal*, 34 (July 1967), pp. 1–16.
8. Coats, *op. cit.*
9. Craufurd D. W. Goodwin, "Marginalism Moves to the New World," in R. D. Collison Black, A. W. Coats, Craufurd D. W. Goodwin, *The Marginal Revolution in Economics* (Durham: Duke Univ. Press, 1973), p. 286.
10. Stuart Wood, "The Theory of Wages," *Publications of the American Economic Association*, IV (1889), p. 11.
11. Stuart Wood, "A New View of the Theory of Wages," *Quarterly Journal of Economics*, 3 (1888–1889), p. 84.
12. *Progress and Poverty*, p. 198.
13. *Ibid.*, pp. 199–200.
14. *Ibid.*, p. 208.
15. *Ibid.*, p. 198.

A Measure to Grant Real Tax Relief

In OREGON Senator William McCoy and Professor Richard W. Lindholm, dean emeritus of the University of Washington's College of Business Administration in Eugene, have collaborated on a public finance measure of great practical value. It promises to go a significant way toward relieving homeowners of part of the burden of maintaining a school system.

Their initiative is summarized as follows: "(The measure) amends the Oregon Constitution, upon voter approval at next statewide general election, to establish state-wide ad valorem tax on land at 2 percent of value for support of elementary education. Authorizes exemptions for first \$2,000 of homestead