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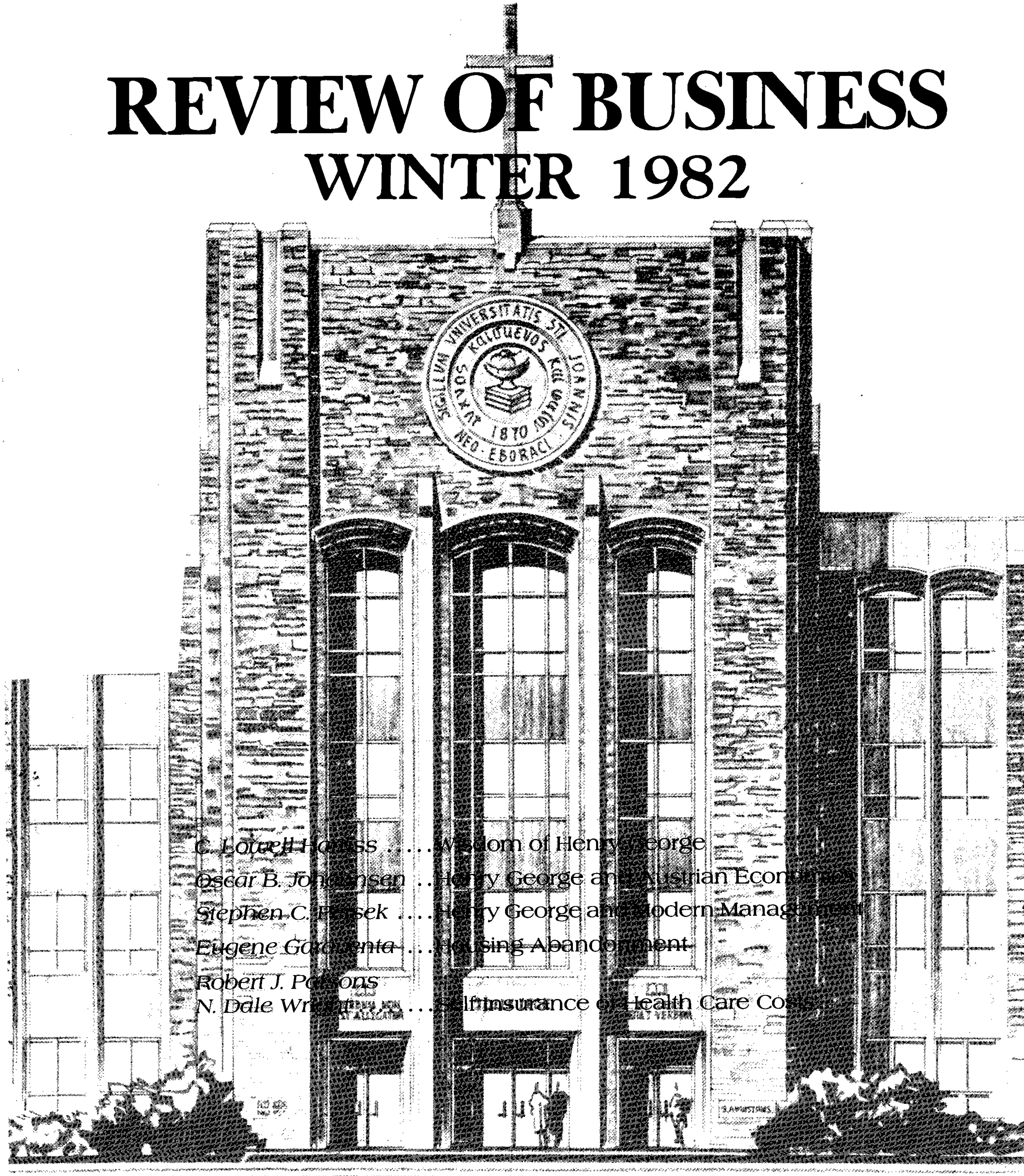

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In This Issue

Editor's Note

The major theme of this issue of the *Review of Business* is the work of the 19th Century American economist, Henry George. Thus the first article presents a sampling of his writings on free trade and taxation selected by C. Lowell Harriss. Next, Oscar B. Johannsen discusses the similarities and differences between George and the Austrian School of Economics, covering such diverse issues as methodology, land ownership and business cycles. And third, Stephen C. Persek describes Henry George's book, "The Science of Political Economy," and relates it to management as practised in the 20th Century.

The fourth article, while not directly related to Henry George, has as its focus a topic of interest to him. Eugene Garaventa discusses land use with special reference to housing abandonment, and suggests various remedies to this growing problem.

Finally, Robert J. Parsons and N. Dale Wright introduce a new, important alternative to traditional methods of financing health care, self insurance. They show that it is possible for companies to offer employees health coverage equal to that provided by traditional methods, at what can be significant cost savings.

The *Review of Business* is published quarterly by St. John's University, and is mailed to Alumni and Friends of the College of Business Administration.

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Contributors are invited to submit articles for consideration by the Publications Advisory Committee. Acceptable articles relate to contemporary business and economic issues, new theories or methods of analysis in business, the results of innovative research, and analysis of business and economic data. Articles should be between 1,500 and 7,000 words in length.

The views presented in the articles are the author's own, and do not necessarily represent those of the *Review of Business* or St. John's University.

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Henry George and the Austrian Economists

Oscar B. Johannsen

Although, unfortunately, Henry George did not appreciate the Austrian School of Economics, there is much in common between his thinking and that of the Austrians.

Professor Yeager has pointed out "how similar Henry George's views on economic research methods are to the views of his Austrian contemporary, Carl Menger," noting among other similarities, the parallelism of their methodological tenets.[1]

The Austrian School, of whom besides Carl Menger, the founder, the most prominent members have been Eugene V. Böhm-Bawerk, Ludwig von Mises, and Friedrich A. Hayek, is known for its individualistic approach to economics. Mises goes so far as to state that "economics is not about goods and services, it is about the actions of living men."[2]

Murray N. Rothbard, the best known of the American economists who espouse the Austrian School's approach, emphasizes that "only an individual has a mind; only an individual can feel, see, sense, and perceive; only an individual can adopt values or make choices; only an individual can *act*."[3]

Executive Director, Robert Schalkenbach Foundation, New York

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 interferring 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.

While George rejected the Austrian theory of value, and argued for what amounts to a labor-saving theory, nonetheless his concept of value did in some measure coincide with the Austrians'. He said value's "essential element is subjective, not objective; that is to say, lying in the mind or will of man, and not lying in the nature of things external to the human will or mind."[4]

Since the very basis of the Austrian concept of value is subjective, it is apparent that George's understanding of value paralleled theirs. However, he either did not understand or did not appreciate the importance of marginal utility, a concept of which Menger was one of the original propounders.

Both George and the Austrians are free market economists. They believe in the free and unhampered marketplace, with governmental interference reduced to a minimum.

Point of Divergence

But one fundamental difference exists which is of major significance: The treatment of the land as property. Any other differences, such as value and the degree of governmental activity, fade into insignificance by comparison.

As regards property, Menger said "The entire sum of goods at an economizing individual's command for the satisfaction of his needs, we call his *property*."[5]

Rothbard states that "each individual, as a natural fact, is the owner of *himself*, the ruler of his own person. The 'human' rights of the person that are defended in the purely free-market society are, in effect, each man's *property right* in his own being, and from *this* property right stems his right to the material goods that he has produced."[6]

Henry George essentially arrives at the same basis of property. He asks "what constitutes the rightful basis of property? . . . Is it not, primarily, the right of a man to himself, to the use of his own powers, to the enjoyment of the fruits of his own exertions? . . . As a man belongs to himself, so his labor when put in concrete form belongs to him."[7]

Although both George and Rothbard base property rights on the fact that each individual owns himself, Rothbard does not infer from this fundamental principle the same deduction that George does.

Rothbard broadens his concept of property to include land. He says, "if a free society means a world in which no one aggresses against the person or property of others, then this implies a society in which every man has the absolute right of property in his own self and in the previously unowned natural resources which he finds, transforms by his own labor and then gives to or exchanges with others."[8]

Just why, because an individual owns himself and thus that anything he produces means that he also owns "previously unowned natural resources," that is, owns land, is not clear. Rothbard sets up as the criteria for the ownership of land that it is "a prime condition of free-market property rights, namely, that new, unowned land be first owned by its first user, and that from then on, it becomes the full private property of the first user or those who receive or buy the land from him. This is the free-market method; any other method of allocating new, unused land to ownership employs statist coercion."[9]

Thus, private property in land, according to Rothbard's standard, orginates in the "first user, first owner" concept. Assuming this is correct, how great an area of land is concerned? What are the boundaries — a square foot, a square mile, a million square miles? If boundaries are set, who sets them? Rothbard is opposed to any governmental agency delimiting the boundaries, as this would constitute "statist coercion." But, certainly some boundaries must be set, and if that is the case, someone has to do it. Who does it? Who in the free market does it?

Of course, the Biblical student might wryly point out that Adam was the first user of the earth, as he must have expended his labor on it.Thus, he owned it, as there was no one else before him, not even Eve. As he owned it, he could give it to anyone he wished. Since all the peoples of the world are his heirs, and since presumably he willed the land to his heirs, then all the people of the earth own it. This is the concept which, in effect, is implied in George's thought.

". . . there can rightfully be no exclusive possession and enjoyment of anything not the production of labor"

Since, according to George, property rights are based on human labor, then private property in land could not be justified as no human created the land. He said "This right of ownership that springs from labor excludes the possibility of any other right of ownership. If a man be rightfully entitled to the produce of his labor, then no one can be rightfully entitled to the ownership of anything which is not the produce of his labor, or the labor of someone else from whom the right has passed to him. If production give to the producer the right to exclusive possession and enjoyment, there can rightfully be no exclusive possession and enjoyment of anything not the production of labor, and the recognition of private property in land is a wrong."[10]

Though George believed that private property in land is wrong, it did not mean that he opposed the private possession of land. On the contrary, he urged it. He recognized that unless an individual (after taking into account the rights of others) was assured that the entire product of his labor was his own property, he would not produce, or at least would only produce as little as possible. For George, in effect, the question was a simple one. Since all men have equal rights to the land, and since it is impossible for two men to occupy the same place at the same time, some means must be adopted to allot the land with justice to all. In his view, in a sophisticated society, this could be accomplished by society renting out the land to the highest bidder, thereby collecting what is known as economic rent. In other words, since all could bid, all had an equal opportunity to have access to whatever land they wished.

Because he recognized that his suggestion was a revolutionary one, and because governments exist throughout the world, George advocated an expedient. This was to leave land in the hands of the present owners and utilize the governmental apparatus to do what it is already doing in most nations. In America, local governments were already taxing real estate. He suggested, then, that all that needed to be done would be to tax only the value of the land, so as to obtain the economic rent, and to remove all taxes from improvements and production. This remedy has come to be known as the *single tax*.

Most of the Austrian economists are not opposed to government. On the contrary. For example, Mises said, "state or government is the social apparatus of compulsion and coercion. It has the monopoly of violent action . . . The state is essentially an institution for the preservation of peaceful interhuman relations."[11] However, Rothbard's view of government is such that, even if he believed that the government's collection of economic rent would result in better conditions (which he does not) he would still be opposed since he is against all governmental activity.

Cause of Poverty

Because the Austrians and George view private property in land differently, it is not surprising that their views of the causes of involuntary poverty and unemployment, as well as of the business cycle, also differ.

The Austrians, on the whole, believe unemployment is caused by governmental interferences which cause wage-rates to exceed labor's marginal productivity. Either by government ukase, or indirectly by means of the monopolistic power of unions which is granted by government, wage-rates are kept above the point at which all who wished to work could work. So, just as when the price of a commodity is kept above the point which would "clear the market," a surplus of the commodity results, so artificially maintaining wage-rates above what would be the market rates causes a surplus of labor, i.e., unemployment.

In Mises' view, the rises and falls of the expansion and deflation of the business cycle are caused by governmental interference in the monetary system. By means of its central bank, the government fosters the artificial expansion of money and credit. This easy money policy results in lower interest rates, which make it appear profitable to erect plants and produce goods which are really not desired. The depression which follows is the curative by which the excesses are removed from the marketplace.

George, on the other hand, posited that involuntary poverty and unemployment are due to the hindrances placed on access to land. Private property in land leads to speculation, with the speculators holding land out of use for ever higher prices. This means, in effect, that land is not readily available to labor and capital so that unemployment results. This is easily seen in an agricultural society for, if farmers do not have land on which to work, they become unemployed. In highly developed industrial societies, while the relationship of man to the land persists, it is not as obvious. Thus, few recognize the relationship between the system of land tenure practiced and unemployment.

In George's eyes, the principal cause of the business cycle is speculative increases in land values. In boom times, speculation in land becomes so intense that prices rise to heights that make land too expensive for businessmen to hire or buy. Production then slows and with it labor becomes unemployed. In deflation, the speculative increases in land values drop until finally a point is reached where businessmen find it once again profitable to produce. Business then goes back to work, hiring labor and investing in capital, so the cycle starts again.

Though there are differences between George and the Austrians, there is probably a greater degree of parallelism between his views and theirs than with any other school of economic thought. While the difference in the treatment of the land is important, both George and the Austrians are alike in their emphasis on the individual as the motivating force.

They both believe in allowing the individual the greatest degree of freedom of action possible to produce. They both tried to be as scientific in their work as possible, and yet underneath it all, an ethical base appears. Though as economists, the Austrians tried to erect an amoral science, yet as private citizens they advocated the free market, the freedom of the individual and justice to all, as did Henry George.

Footnotes

1. Yeager, Leland B., "The Methodology of Henry George and Carl Menger," *American Journal of Economics and Sociology*, April, 1954, pp. 233-238
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3. Rothbard, Murray N., "Individualism and the Philosophy of the Social Sciences," Cato Institute, San Francisco, 1979, p. 57.
4. George, Henry, "The Science of Political Economy," Robert Schalkenbach Foundation, New York, 1981, p. 251.
5. Menger, Carl, "Principles of Economics," The Free Press, Glencove, Ill., 1959, p. 76.
6. Rothbard, Murray N., "Power and Market," Institute for Humane Studies, Inc., Menlo Park, Calif., 1970, p. 176.
7. George, Henry, "Progress and Poverty," Robert Schalkenbach Foundation, New York, 1979, p. 334.
8. Rothbard, "Power and Market," p. 1.
9. Ibid., p. 98.
10. George, "Progress and Poverty," p. 336.
11. Mises, "Human Action," p. 149