

A "TIMES" BOOK REVIEWER AND HENRY GEORGE

The Times of the 23rd August had a review of the book, *An Economic History of Modern Britain*, by Dr J. H. Clapham, Professor of Economic History at Cambridge. In his critique, the Reviewer made the observation that "In the 'eighties, the absolute necessity of State inaction was still believed to be a principle of political economy, in spite of Jevon's protests, and although Mill was already giving a guarded approval to death duties, to a differential income tax, and the taxation of land values. But economics was unlucky. Henry George won popularity by ignoring its fundamental principles, and Marx elevated its worst mistakes into a religious dogma."

This observation prompted Mr B. A. Levinson to write to the Reviewer, at the office of *The Times*, quoting the passage and asking, as a student of economics, for information: "Which are the fundamental principles Henry George ignored?" An interesting correspondence resulted and the abrupt way in which it was ended is eloquent in its significance.

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The editor of *The Times* passed on Mr Levinson's letter to the Reviewer who, remaining anonymous, wrote as follows:—

It is, in my opinion, a fundamental principle of the science that economics studies the way in which scarce resources, goods, means, or whatever they may be called, are used in the production of wealth. Any given unit of these resources has a theoretical economic price to which the actual price in a freely working market approximates—the resources used in production are, I think, of three main kinds: the service of labour, the service of "waiting" and the "original and indestructible" resources of nature. Each of these, in virtue of their scarcity (*i.e.*, because there is not enough to satisfy all wants) has an economic price, and in a system of free markets the possessor of each (whether "labour," "capital," or "land") can sell it for that price. So much I should say was a fundamental principle of economics.

Henry George (*Progress and Poverty*, 4th edition, p. 149) says that "rent is the price of monopoly." He says this on the ground that there is not enough land for all to have as much as they want. But, neither there is of labour or capital. Land is only scarce in the sense that labour and capital are scarce—the sense in virtue of which alone anything is an *economic* good at all. The relation of rent to price is therefore in no way different from that of interest or wages to price. By following Ricardo's theory of rent Henry George was led into fallaciously thinking that it was different. He was also led into thinking that the amount of wealth distributed in wages and interest is simply the residue left after rent has been paid, and that an increase of rent is the reason why wages and interest do not rise. To say this is in my opinion to neglect the fundamental principles of economics for the reasons I have given.

The ethics of private property in land and the desirability of George's practical proposals are of course other questions. I think the proposals could be supported by much better arguments than George uses—and without neglecting the principles of economics.

I hope this may make my meaning clear. I am sorry not to have replied before, but I was on holiday when your letter was received here.

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To this letter Mr Levinson made the rejoinder:—

I am obliged to you for your answer to my question. The fundamental principles which you say Henry George ignored are, I infer, these:—

(1) "The relation of rent to price is in no way different from that of interest or wages to price." If you will pardon me for saying so, this is not very happily expressed, but your meaning is clear, that land, labour and capital are similar subjects of value and land is no more a monopoly than the others and scarce only in the sense that those others are scarce.

So put, surely such is not a fundamental or any other

kind of principle of Economics. The three are subject to three distinct rules and conditions. As to scarcity, Labour is not scarce; it is horribly plenteous to-day. Capital is not scarce. Increase the population and you increase the supply of Labour; more wealth will be applied as Capital; but no effort can produce more land. There would be greater demand for the restricted area. All that could happen would be that a wider district within that area would be brought into use and by Ricardo's law (which you accept) rents would rise over the whole area.

So there is a sense in which land is scarce different from any theoretical—or temporarily real—security of labour or of capital, and it is a true statement, epigrammatically put, that "rent is the price of monopoly."

(2) I do not know how you would put the second fundamental principle. You say George was wrong in stating that wages and interest are the residue after rent is paid, and that increase in rent is the reason why wages and interest do not rise. This, you say, neglects the fundamental principles of economics, but which?

Henry George was speaking of rent in the large, not individual instances. His reasoning appears to me to be sound, and I have not yet come across a reasoned disproof of his argument (see Book III, Chap. VII of *Progress and Poverty*). His conclusion is a startling one, I agree. It is very important, but where, I should like to know, is it wrong?

You merely state a conclusion he arrives at, discard it and say fundamental principles are infringed. But that is just the point, and that is just what I find otherwise well-informed people doing.

I am very interested in your concluding observation. "The ethics of private property in land and the desirability of George's practical proposals are of course other questions. I think the proposals could be supported by much better arguments than George uses—and without neglecting the principles of economics."

I have no right to ask you to cast your pearls before me, but, if you have the time, I wish you would indicate to me what those "much better arguments" are. The subject is such an important one that it could be well worth while writing them for publication. I infer that you are sympathetic with the purpose. Pray do not withhold your arguments. I for one will welcome them.

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The reply to this communication was an editorial letter to say that a private correspondence on the subject could not be continued.