Justice and Mr George

What Henry George knew, what the neoclassicists forgot, and why it matters

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Abstract

Purpose – Henry George was acclaimed by the general public and disdained by the professional economists, largely for the same reasons. For the general public, progress, and poverty seemed to go to the heart of the matter, treating economics as a question of justice. But for the professionals, George was often regarded as a dangerous radical, even though he reasoned within the tradition of Smith, Ricardo, and Mill. However, he conducted his studies at the precise moment of the marginalist revolution, just as the profession was undergoing a transition from political economy to economics. For the former, economic science was embedded in particular political and cultural systems, while the latter aspired to be a pure science with its own mathematics. While some of the marginalists, such as Walras and Marshall, could maintain a commitment to justice, many others found the whole question superfluous. The purpose of this paper is to argue, however, that without some notion of justice, and especially justice in property relations, a complete description of an economy is impossible.

Design/methodology/approach – The paper examines three issues: the relation between distributive and corrective justice, the relation between normative and positive science, and the relation between equity and equilibrium.

Findings – The paper finds that, without some notion of equity, equilibrium is unattainable. And this relation can be shown to be present in the very starting conditions of neoclassical formulations, which initial conditions are, alas, too often forgotten.

Originality/value – The paper provides an intriguing view of the neoclassicists' different stance in regard to justice, pointing out that William Stanley Jevons, for example, explicitly states that "feelings" of justice are "more or less extraneous to a theory of economics," and expands upon this argument.

Keywords Economic theory, Political economy, Economic equilibrium

Paper type Viewpoint

Whatever happened to justice?

Henry George, in *Progress and Poverty* (*P&P*), uses the word "justice" (or "injustice") approximately 100 times. Justice is a theme that runs through *P&P*, and it is clear that George believes that justice is intrinsic to economic order. In this, he was not innovating. Adam Smith, in *The Wealth of Nations*, uses the term about as often as George, and John Stuart Mill, in *The Principles of Political Economy*, does the same. So there is a strong classical tradition connecting justice to economics, which, though not universal among the classicists, certainly burns brightly among its leading lights.

However, with the neoclassicists, things are different. William Stanley Jevons, for example, explicitly states that "feelings" of justice are "more or less extraneous to a theory of Economics" (Jevons, 1888, IV.74). Marshall (1920, I.IV.13, II.II.17, V.XIV.29, VI.XIII.37), in *Principles of Economics*, uses the term only four times in the text, though somewhat more often in the appendices. Clark (1908, I.7-14), in *The Distribution of Wealth*, uses the term only three times. Throughout the neoclassical tradition, the question of justice simply does not occupy the same position that it did for the classical

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tradition it replaced. We cannot say, however, that this occurred because these gentlemen were simply uninterested in justice. Quite the contrary. Marshall (1920, I.IV.13) took it for granted that "a more equal distribution of wealth is to be desired," while Clark could write the monograph *Social Justice without Socialism*, in which he advocated a program of political and economic reforms that today we would label "Keynesian" (Anonymous, 1914). Further, Clark, in defiance of his own theory of distribution, campaigned for a minimum wage, and this at a time when the subject was not popular among his colleagues (Prasch, 2007). So it was not an indifference to justice that diminished it's place in their theories.

Rather, it was the marginalist revolution that created neoclassicism which found no place for justice. The classical tradition had been plagued by competing theories of value, the labor theory and the utility theory, neither of which proved adequate to explain the level of wages, profits, or prices. But by marginalizing utility, all three could be reduced to an elegant mathematics, which is as much to say, everything could be reduced to a rule of natural law, just like physics could be reduced to the law of gravity. As Clark put it, while wages and prices might appear to be based on the free bargaining of the free market, they are in fact merely responding to "a deep acting natural law" which dictates the outcomes for these apparently "free bargains":

> *Where natural laws have their way, the share of income that attaches to any productive function is gauged by the actual product of [that function]*. In other words, free competition tends to give labor what labor creates, to capitalists what capitalists create, and to entrepreneurs what the coordinating function creates (Clark, 1908, p. 3. Italics in original).

This presents us with a great conundrum: to the extent that the market is free, there is no freedom in factor shares. And if there is no question of freedom, there can be no question of justice. Indeed, to interfere with the market would be to interfere with justice. Hence, the question of justice would be answered precisely to the degree that is not asked. Of course, the neoclassical school recognized that the market was never perfectly free and its imperfections would lead to practical questions of justice; nevertheless, the free market paradigm banished justice from economic theory and consigned it to the messy world of praxis and politics. The theory was complete and only market friction prevented a perfect realization of market justice. The neoclassical economists had no objection to raising the practical question, and they frequently did so themselves. But Henry George raises the question at the theoretical level, and does so in a way that appeals to the general public. In doing so, George raises questions that concern not only the theory, but the very prestige of the newly-minted science. It is hardly any wonder then that so much of neoclassical theorizing is done as an answer to Henry George (Gaffney, 2007, pp. 29-164).

Despite the elegance of the mathematics, there are some hidden assumptions of neoclassical theory which can be questioned. In the first place, the theory depends on a certain reductionist view of human action, namely that it is always self-interested and always based on a calculation of maximum utilities. Now, it is self-evident that men and women are self-interested; it is less self-evident that this is the only motive for action. Further, it is not clear that they make rational calculations of utility in a way that would be mathematically useful. In the second place, the theory must treat everything traded in the market as a commodity, as something made specifically for the market. Now, this is certainly true for true commodities. But nature and men are not commodities, not manufactured for the marketplace. Widgets made for the market will obey market rules.

But men and nature are independent of the market; the former are made for other reasons and the latter is not made at all, or at least not made by men or women.

In order to subsume man and nature into the world of market mathematics, they had to be converted into the fictitious commodities of labor and land, and valued only as these fictitious commodities (Polanyi, 2001). But man has values beyond his value as labor, and nature is more than real estate. Thus, the major qualities associated with humanity and nature are left out of marketplace calculations. However, the neoclassical economist is likely to be uncomfortable with this talk of values. He will want to make the claim that economics is a science, and therefore, like every other science, beyond the reach of values. But is it not a strange science that does not fully appreciate the full values of its own subjects? If we reduce nature to real estate, do we not invite an ecological crises, and if we reduce man to his labor, do we not guarantee oppression?

Finally, when we examine the mathematics of "marginal productivity," may we ask if it is really productivity that is being marginalized? Or is it power? Does the CEO make 500 times what the line worker makes because he is 500 times more productive or 500 times more powerful? Does the sweatshop seamstress make one-millionth of what the CEO makes because her productivity is negligible or because her power is negligible? Neoclassical theory cannot answer this question, so it assumes an answer: it assumes that no player in the market has any more power than any other player, thereby eliminating power as a consideration. But is this assumption valid? The theory cannot tell us, cannot say whether it is power or productivity that is being marginalized. All the theory can say is that "If the powers among the parties are equal, then productivity will be marginalized." However, the natural correlation of this statement would seem to be, "If the powers are unequal, then it is power that will be marginalized." But an economy of marginal power is very different than an economy of marginal productivity. The empirical evidence would seem to suggest that power, rather than productivity, gets marginalized, and that the factors of production, therefore, get not what their efforts produce but what their power commands.

This last point goes to the heart of George's (2005, pp. 120-4) critique of standard theory. He identified one factor of production as predominant in power over the other two. This imbalance of power must limit the return to the other two factors: the rent line establishes the landlords' claims, which, in any system of private property, must be satisfied first of all, and only then can we speak of the division of the remainder between capitalists and workers. The landlords' claims must be satisfied first because land forms a monopoly, an exclusive claim to the fruits of production by one small class, a claim based not on that class's productivity, but on a purely legal form, their ownership (George, 2005, p. 120). Further, George recognized that the limit on growth was not a lack of capital, but a lack of its proper distribution (George, 2005, p. 63). Thus, as regards to both capital and land, he refers the problem to distributive justice. Only proper distributions of rent and capital could correct the imbalance of power that prevented a proper distribution of rewards.

This concern with distributive justice could only appear as problematic to neoclassical economics (NCE). Since all production and distribution was thought of in terms of exchanges, only corrective or commutative justice was necessary. Further, these exchanges could be explained in terms of the elegant mathematics of marginal utility, so that "justice" as a term drops completely from the conversation. Justice, therefore disappears as an economic term. The "science" of economics had neither need nor room for justice, as the calculus of utility could explain all. Justice was therefore banished to an amorphous realm of "values" leaving the science to deal in a world of facts. Let those who would deal with the "normative" aspects of the economy, the scientist would deal with the positive realm of number.

In arbitrating between these two views of economics, we will have to examine three issues:

(1) The relation between distributive and corrective justice.

(2) The relation between normative and positive science.

(3) The relation between equity and equilibrium.

Justice, distributive, and corrective

The reflection on the relationship of justice to economics begins with Aristotle. For Aristotle (1947a, 1139a, p. 10), justice is not just a part of virtue, but "virtue entire, nor is the contrary injustice a part of vice, but vice entire." Justice underlies all the virtues and deals with the relations of man and man:

> And therefore justice is often thought to be the greatest of virtues, and "neither evening nor morning star" is so wonderful; and proverbially "in justice is every virtue comprehended." And it is complete virtue in its fullest sense, because it is the actual exercise of complete virtue. It is complete because he who possesses it can exercise his virtue not only in himself, but towards his neighbor also (Aristotle, 1947a, 1129a, p. 25).

It is within this relationship of man to man, that is, within justice, that Aristotle locates economics. He presents a sophisticated analysis that includes a demand function, a distinction between use and exchange values, the function of money as the medium between value and demand (or "need") and usury, among other things. Aristotle (1947b, 1252b, p. 11) begins his reflection with the family, for "The family is the association established by nature for the supply of men's everyday wants." It is the family, and not the individual, that is the starting point (contrary to modern economics) because only the family is self-sufficient; an individual in isolation can neither reproduce nor provide for himself (Aristotle, 1947b, 1253a, p. 26). Man, for Aristotle, is a social being always using language and reason and always embedded in a cultural milieu, and that milieu is governed by justice, understood in two senses: distributive and corrective justice.

Distributive justice deals with how society distributes its "common goods." Aristotle (1947a, 1130b, pp. 31-3) defines this as "things that fall to be divided among those who have a share in the constitution." This refers to the common goods of a state, a partnership, or some cooperative enterprise. For Aristotle (1947a, 1131a, pp. 25-9), these things should be divided by "merit" based on contributions, but what constitutes this merit will be a matter that is determined culturally: "for democrats identify it with the status of freeman, supporters of oligarchy with wealth (or with noble birth), and supporters of aristocracy with excellence."

Corrective justice[1], on the other hand, deals with "justice in exchange"; that is with transactions between individual men. In this case, justice consists in exchanging equal values, in "having an equal amount before and after the transaction" (Aristotle, 1947a, 1132b, pp. 19-21). The problem is how to determine what values are equal when dealing with dissimilar products, which is nearly always the case. To use Aristotle's (1947a, pp. 25-31) example, how many pairs of shoes are equal to one house? The only way to know this is by "need," which many economists understand as the demand function mediated by money. Thus, the demand for houses and shoes can be compared by looking at their prices and the two can be equated in terms of money. Money, however, is a social convention: "this is why it has the name money (nomisma) – because it exists not by nature but by law (nomos)." Thus, the requirement for equality in exchange comes from the natural law, but the method of implementing it is legal or conventional.

Distributive justice, then, is a distribution of the products of a group distributed to the members of the group, while corrective justice deals with exchanges between individuals. Distributive justice will be proportional to one's contribution to the group, and hence there can be unequal distributions based on unequal contributions. Corrective justice, on the other hand, will always involve equal amounts, like for like. We can note here that the two species of justice will lend themselves to different types of calculations. Corrective justice deals with the equality of thing and thing, mediated by a third thing (money). Thus, it forms a kind of three-body problem and will be subject, at least in principle, to the kinds of complex calculations used in multi-body problems. Distributive justice, on the other hand, involves a judgment of relative "merit." This judgment cannot be reduced to a "calculation." For example, the relative compensation of line workers and CEOs cannot be "calculated"; a judgment must be made as to the economic "merit" of each kind of work. The claim may be made that such distributions are the result of the "marginal productivity" of the respective parties, but the actual rise of the pay of CEOs and other top executives in the last 20 years makes this a hard claim to credit (Bogle, 2005).

This difference in the types of judgments used in calculating distributive and corrective justice goes a long way toward explaining why neoclassical economics has avoided the subject of distributive justice and staked its whole claim on formulations of corrective justice. The mathematical bias of neoclassicism makes distributive justice problematic and forces unwanted social and cultural elements into the calculations, elements which cannot, in fact, be mathematically calculated. Aristotle defines three possible judgments on distributive justice, but Gaffney (1989) defines no less than 17! Such an embarrassment of riches in regard to distributive justice would necessarily complicate the science, a science that sought to reduce all things to a simple formula, namely marginal utility. Gaffney (2007, p. 29) is of the opinion that "the founders of Neoclassical economics changed the discipline for the express purpose of deflecting George and frustrating future students seeking to follow his arguments," but I do not think this is precisely correct. Rather, with their insistence on fitting everything into a neat formula, Henry George, with his insistence on distributive justice, became collateral damage; it was not George, but justice, that was the enemy. Justice, as a pure value, could have no place in marketplace valuations, else the science would be "normative" rather than "positive," and hence not really "science" at all. But surely, this represents a misunderstanding of what science is.

Science, normative, and positive

Some wag somewhere has remarked that economists suffer from "physics envy." One could certainly make that charge against Jevons (1835-1882), one of the founders of marginal economics, when he wrote that a "perfect system of statistics [. . .] is the only [. . .] obstacle in the way of making economics an exact science"; once the statistics have been gathered, the generalization of laws from them "will render economics a science as exact as many of the physical sciences" (Alvey, 1999, p. 62). More than a century has passed since Jevons wrote these words, and in that time there has been a growth of vast bureaucracies, both public and private, devoted to establishing this "perfect system" of statistics. Yet today economics seems no closer to being an exact science than it was in Jevons' day. Despite this failure, economic orthodoxy clings to the notion of itself as a positive science. As Friedman (1953) puts it:

> Positive economics is in principle independent of any particular ethical position or normative judgments. As [J.N.] Keynes says, it deals with "what is," not with "what ought to be." Its task is to provide a system of generalizations that can be used to make correct predictions about the consequences of any change in circumstances. Its performance is to be judged by the precision, scope, and conformity with experience of the predictions it yields. In short, positive economics is, or can be, an "objective" science, in precisely the same sense as any of the physical sciences.

Friedman makes predictive success the criteria for judging a positive economics, yet such success is doubtful, despite the fact that we have access not only to vast amounts of statistics, but to computing power unimaginable in Jevons' day. Yet the models, worked out in great precision and computed on engines of vast power, seem to lack any predictive reliability whatsoever (Ormerod, 1994, pp. 120-7). Nevertheless, economists are (as Lev Landau said of cosmologists) "frequently in error but never in doubt."

In light of these failures, can we ask if economics really is a positive science? Let me suggest that the question is meaningless. Every science, insofar as it really is a science, is both positive and normative. Every science, insofar as it is a science, must be "normalized" to some criteria of truth. These truths will arise from two sources:

(1) An internal source.
(2) An external source.

The internal criteria involve a science's proper subject matter and methodology. But these criteria are insufficient to found any science as a science. In addition, there must be external criteria of truth, and these truths can only come from one or more higher sciences. In the absence of such an external check, the science will merely be circular, dependent on nothing but itself and unconnected with the hierarchy of truth. Thus, for example, biology is responsible to chemistry, chemistry to physics, physics to metaphysics. No biologist can violate the laws of chemistry, and no chemist can reach a conclusion contrary to physics. Thus, every science is responsible to its own methodology (and therefore "positive") and to the higher sciences (and therefore "normative"). Every science has, therefore, both its own proper autonomy, based on its subject matter and methodology, and its own proper connection to the near sciences, based on the hierarchy of truth. In speaking of the autonomy of a science, we should note that it is only a relative autonomy, not an absolute one. A scientist's obligation to be faithful to his proper method does not relieve him of the obligation to higher truths.

No science can provide its own criteria entirely without being merely circular. When a science attempts to do so, one of two things happens:

(1) The first possibility is that the science breaks up into mutually warring camps whose disputes can never be resolved because there are no accepted criteria of truth by which to resolve them.

(2) The second possibility is that the science becomes merely dogmatic, and no rational examination of its premises is permitted.

In economics, both things have happened; the science is divided into warring factions with no arbiter of truth among them; the principles of the various factions often become dogmatic statements with little connection to reality.

We should note that, despite the hierarchy of truth, the traffic is not one-way, from the top down. Biology, for example, can pose questions to chemistry that the chemists by themselves may not have considered. The biologists can raise objections to certain formulations of the chemists or suggest new experimental situations. Nevertheless, the answers will still have to conform to the methodology of chemistry. In the same way, economics has the power of enlightening its higher sciences.

It is necessary, then, to determine what the "higher sciences" are for economics. Now, the physical sciences terminate in physics, but the humane sciences terminate in some view of anthropology derived ultimately from philosophy and theology. Therefore, some theology must be the ultimate source of truth for economics with, perhaps, some intermediate stops at psychology and sociology. It would seem to be self-evident that a complete view of man would involve theology, philosophy, sociology, and psychology, yet this view is not at all universally (or even generally) accepted by economists. How is it possible that a humane science can cut itself off from these indispensable sources of knowledge about humans? The answer lies in the fact that neoclassical economists accept as a purely economic truth that which is, in fact, a purely philosophic stance, namely that of Jeremy Bentham's utilitarianism. The purest expression of this is in Ludwig von Mises's tome, human action. The very subtitle (*A Treatise on Economics*) gives the game away; he claims that his thesis is not, as it appears to be, a philosophic one, but a purely economic one. von Mises (1963) states that his theory has the same epistemological status as do logic and mathematics, asserting that it is "unconditionally valid for all beings endowed with the logical structure of the human mind." But surely, quite logical people have found logical grounds for questioning his "praxeology"; it is not an intuitively obvious principle that all scientists, indeed, all persons, must accept. Here, we see a purely philosophic stance becoming an economic dogma, placed beyond testing or question, and hence unscientific. Nor is the problem confined to the Austrians, for what Mises does explicitly, Friedman does implicitly. And in either case, "science" is cut off from the very roots, the very connection with the higher sciences that could make it a legitimate science rather than a warring set of ideologies.

Cut off from these roots, economics cannot answer the question of distributive justice. Or rather, it cannot test the theories of distributive justice offered by the higher sciences. Instead, thinking itself complete in itself, it will engage in battles that have no possible resolution, because they are not really economic battles but philosophic ones. But more importantly, it cannot even answer the question of corrective justice, of justice in exchange. It cannot possibly show whether its distributive equation, marginal productivity, actually marginalizes productivity, or merely power.

Henry George was clear on the answer to this question: it was a failure of proper distribution, rather than a lack of capital, that formed the upper limit on growth (George, 2005, p. 63). Corrective justice depends on some prior distributive justice, because exchange depends on distribution; things must be made before they can be exchanged, and the rule for distributing the production will determine the course of exchanges. And without a proper understanding of the relationship between corrective and distributive justice, it will be impossible to have a scientific understanding of equilibrium.

The distributive problem

To be fair to the neoclassical economists, they did believe that the distributive question could be answered totally within the confines of exchanges, hence a theory of distribution was superfluous. Clark believed that the forces of free competition would force prices to equal the cost of production[2], driving the rate of profit to zero, so that the entrepreneur would earn little more than the worker and economic rent would be impossible:

> Normal prices are no-profit prices. They afford wages for all the labor that is involved in producing the goods, including the labor of superintending the mills, managing the finances [. . .] and doing all the work of directing the policy of the business. Beyond this, there is no return, if prices stand at their normal rate; and the reason for this is that entrepreneurs compete with each other in selling their goods, and so reduce prices to the no-net-profit level (Clark, 1908, pp. 111-2).

This introduces a conundrum into the theory: the whole system depends on the entrepreneur who seeks a profit, yet, to the degree that the theory works at all, no profit is possible. Moreover, one can certainly ask whether, in a social process, there really are separable – and severally calculable – products of capital and labor. One of the reasons that neoclassicism could abandon distributive justice is that it no longer regarded production as a social process, but as a potentially infinite series of individual exchanges culminating in an exchange with nature[3]. In abandoning the idea that production was a social process, there is no need for a distributive principle; prices have an allocative function and signal where best to direct scarce resources, but they no longer function as a distributive mechanism.

But whether or not NCE works as a science, the moral claims are even impressive. When the state of competitive equilibrium is reached, then all factors of production – land, labor, and capital – will be both fully utilized and fairly compensated at rates normalized to each other. Thus, there would be neither extreme wealth nor poverty; economic rents would be eliminated and prices driven to the costs of production. However, this could only be possible if all the factors of production were homogeneous; that is, land and labor and capital had to have the same characteristics to be treated under the same mathematics; land had to be abstracted from nature, labor from man to form the fictitious commodities necessary for the theory. And even capital became an abstract fund, quite apart from the physical items that we normally think of as capital.

Clark believed that in the workings of marginal productivity he had discovered the workings of God himself; he published in purely religious journals claiming to have worked out the laws of the moral order, "natural laws" which was merely the working of God's plan and which would eventually lead to the New Jerusalem, the kingdom of God on Earth (Nelson, 2001). But this happened in a deterministic fashion, under the auspices of a mechanistic God. The market itself becomes a theodicy by which social cohesion is provided without any human plan or intentionality. It is only necessary to set up a market system and providence will take care of the final outcomes (Milbank, 1990). Nevertheless, if Clark's claims are correct, then it is a remarkable achievement.

All of economics, and all of justice, are reduced to the "science" of exchanges, that is, to corrective justice. Aristotle's claim that distributive justice has an irreducible cultural element would be false and economics would be a completely self-contained science that is entirely free of moral, historical, or cultural elements. If Clark is correct, then Aristotle must be wrong and George must be superfluous. Any attempt to introduce normative considerations into economics would be counter-productive; such intentionality would not only be "anti-scientific," it would run counter to providence itself. Nor would distributive justice be the worse off; all the things that the Georgists hoped to attain through a consideration of distributive justice, with all its normative complications, would be attained through corrective justice alone. Such a view would be free of any purely cultural constraints or system of values.

But labeling land as "capital" does not eliminate the problem of economic rent. The semantic trick cannot overcome the economic problem; capital is consumed in the process of production and land is not. NCE in general and Clark in particular have another way of handling this problem: following an idea originally advanced by Nassau Senior (Hunt, 2002), they treat all incomes as rent. Clark argues that since wages are a "differential gain" they are the same as ground rent. From this stunning non-sequitur, Clark concludes that: "It is one of the most striking of economic facts that the income of all labor, on the one hand, and that of all capital, on the other, should be thus entirely akin to ground rent"[4]. Why the effort to equate all incomes with ground rent? Ground rent, as opposed to rent of man-made things like homes, buildings, or machinery, is rent paid for the ground that stands beneath any productive asset. The problem with ground rent is that it has no economic function and hence represents a pure economic rent. Economic rent is an amount paid to a factor of production over and above that which is necessary to keep it in production; it is the very measure of economic inefficiency. But land has neither production cost nor depreciation cost. Thus, the entire amount paid for such rent is economically and morally suspicious. No one claims that the landowner, merely by virtue of owning the land, adds any value to it; indeed, it is not contentious to point out that his title adds nothing productive to the land. The landowner's claim to all but the marginal product is a purely legal one, and neither a moral one nor an economic one. It is based solely on the monopoly status that land and the landlord enjoy.

As long as there is economic rent in the system, the system cannot be economically efficient, and hence cannot reach equilibrium.

Which comes first, equity or equilibrium?

What is most interesting about neoclassical theory is that it places equity – the just compensation of labor and capital – subsequent to equilibrium. An equitable distribution of rewards would result only when the economy reaches "full-employment" equilibrium. At that point, wages and profits will be normalized to each other, eliminating any great disparities in wealth and poverty, thereby achieving justice while insuring that all economic resources are properly and efficiently allocated. This means that the economic term is prior to the theological term, that equilibrium is made prior to justice. Theology is made to be the handmaiden of economics, and the theologian is dependent on the economist to learn the meaning of "justice." In short, justice results from good economics, rather than good economics resulting from justice. Indeed, the theological term may be ignored entirely, because it will be an automatic result of the system, and needs no conscious effort beyond the purely economic effort.

The problem with this explication of economic order is that no one has ever seen it happen. Examples of a pure free market equilibrium resulting in an equitable distribution are hard to come by, and, if they exist, they certainly appear to be the exception rather than the rule. Instead, we have seen, for the last quarter century, a widening gap between the rich and poor even in the presence of a rapidly expanding economy (Wolff, 2002). The Libertarian will have a ready answer for this conundrum: "Government meddling in the economy has destroyed the necessary competitive purity of the system; the answer is simply to scale back government interference, and the system will perform as advertised." This seems to be a plausible reply, but it runs into an historical problem. Clark wrote in 1899, when the scale of government was but a fraction of what it is today. Yet his age was even further from equilibrium than is ours. Indeed, massive government intervention in the economy did not really start until after World War II. Yet, in the period from 1853 to 1953, the economy was in recession fully 40 percent of the time; since 1953, it has been in recession only 15 percent of the time (NBER, 2006). One could reasonably conclude that government intervention has moved us closer to equilibrium, not further away, as the theory predicts. Further, even when the economy was not in recession, it was often in a "bubble," another form of disequilibrium. Thus, competitive equilibrium, if it has ever been seen at all, has been seen only rarely.

The suspicion grows, therefore, that there is something missing from the model of competitive equilibrium. The missing element, whatever it is, will be required to explain two things: first, why the theory as stated does not work, and; why government intervention, so contrary to the theory, seems to work at least somewhat better then pure competition alone.

The problem, I believe, is that neoclassical economics has reversed the proper order of the sciences; it has elevated the lower term (equilibrium) over the higher term (equity). It is as if the biologists decided to dictate terms to the chemists, or the chemists to the physicists. Both the neoclassicals and the Keynesians treat equity as a post-condition of equilibrium. In the neoclassical theory, justice is, at best, an afterthought, if it is even thought of at all; no one need trouble himself over the question, since a purely competitive system will answer the question only so long as no one actually asks it to. However, it turned out that it was necessary, at a purely practical level, to ask the question, as the system in the 1930s seemed ready to collapse into chaos and revolution. The most prominent economist posing the question of justice was John Maynard Keynes. Keynes (1964, p. 378) had no real conflicts with neoclassical theory as such; he merely noted that its starting conditions are never fulfilled. Therefore, the economy:

> [...] seems capable of remaining in a chronic condition of sub-normal activity for a considerable period without any marked tendency towards either recovery or collapse. Moreover, the evidence indicates that full, or even approximately full, employment is of rare and short-lived occurrence (Keynes 1964, pp. 249-50).

To remedy this condition, Keynes re-introduces the question of distributive justice. He does so in a peculiar way, however. Distributive justice becomes redistributive; the neoclassical economy will produce the wealth and the government will tax and redistribute it to insure an aggregate demand sufficient to maintain some semblance of equilibrium. The advantage of the Keynesian system is that it makes justice a conscious concern that can actually be discussed, debated, and addressed. The disadvantage is that it is still a post-equilibrium justice, leaving intact the incorrect order of these terms that is found in neoclassicism. As such, justice becomes politicized, the result of immense bureaucracies. The dangers are that such bureaucracies will end up piling debt upon debt (since it is easier for governments to incur debt than to repay it), and that these very bureaucracies will be captured by powerful groups within the society and will come to serve very narrow interests indeed. All of this has come to pass.

Nevertheless, Keynes correctly located the error of neoclassicism within its starting conditions. As Ormerod (1994, p. 48) puts it:

> By definition, any model necessarily abstracts from and simplifies reality. But the model of competitive equilibrium is a travesty of reality. The world does not consist, for example, of an enormous number of small firms, none of which has any degree of control over the market in which it is operating. [. . .] It is entirely illegitimate to make the link between the model and the observed success of the Western market economies.

The major starting point for neoclassicism is a production capacity widely dispersed throughout "a vast number of firms"; without this starting point, the theory fails in practice. Moreover, the further an economy is from the ideal initial conditions, the further it gets from equilibrium, which leads to further inequities, which leads to further disequilibrium. It becomes a vicious cycle, which continues until collapse, at which time some modicum of equity is re-established (mainly by wiping out debts), and the cycle re-starts itself. This gets us very close to identifying the problem with the theory. The theory places equity post-equilibrium. But the pre-condition for the "vast number of firms" starting point is that there is a wide distribution of productive property – land, capital, and human skills – throughout society. This is precisely the condition of distributive justice. Therefore, the theory, which is a post-equilibrium theory with respect to justice, buries a requirement for justice within its starting conditions. Thus, the neoclassical theory tries to be, simultaneously, a pre-equilibrium and a post-equilibrium theory. It is therefore incoherent.

If neoclassical economists took their own theory seriously, they would be the first to object to consolidation within industries, such as what happened within the oil and gas industry; they would campaign against virtual monopsonies like Wal-Mart. But in general, they do not. Neoclassical economists rarely bother to measure the effect of the real departures from their ideal starting conditions on the observed outcomes; they cling, in spite of their own theory, to the belief that equity will result from equilibrium, without realizing that the "vast number of firms" assumption means that equity must precede equilibrium. But to recognize this would be the equivalent of admitting a fault in the theory, of recognizing its circularity. Worse, it would be to admit purely theological considerations, which runs counter to the whole positivist bias. Finally, neoclassicism exhibits a particular blind spot in regard to the distribution of property itself. The theory tends to concentrate solely on equity in incomes and to regard the distribution of property as a "given." This was evident even in the title of Clark's book, *The Distribution of Wealth*. But the book makes no mention of the distribution of wealth and concerns itself only with the distribution of incomes. However, it is clear that any actual distribution of income will be primarily dependent on the distribution of the means of production, either the physical means (land and capital), or the intellectual means (education, training, and socialization). Where ownership of these things, and especially ownership of land, is limited, then the "vast number of firms" requirement cannot be fulfilled, and the system, so elegant in theory, will fail in practice, or will require massive government intervention.

In defiance of its own theoretical starting conditions, neoclassical economists frequently display a complete indifference to the accumulation of power in vast corporate collectives, which have vast marketplace power, a power which must destroy the competitive equilibrium of the market. Indeed, no socialist state has as successfully collectivized production as has modern capitalism, and in the face of such collectivization, free markets are impossible. Failures in demand must be made up by massive government intervention or by massive amounts of consumer credit, and in our case both remedies are necessary to prevent collapse.

Justice and Mr George

Henry George was more realistic and hence much more scientific. He realized that if land could be accumulated without limit, then there could be no limit on the accumulation of power and economic opportunity must diminish. Moreover, he acknowledged that the values of land were public values, and as long as private individuals were permitted to appropriate all of these values, there could be no practical limit on ownership.

Our economic debates are often posed in terms of an irresolvable tension between private and public control of the economy. George's (2005, pp. 308-9) solution is elegance itself: he socialized ownership while privatizing development. Land would be available for use only and there would be no point to mere speculation. The values created by the public would be appropriated by the public for public uses, while the values created by the laborer and the entrepreneur would remain theirs without the heavy hand of taxation. As George (2005, p. 322) put it:

> Society would thus approach the ideal of Jeffersonian democracy, the promised land of Herbert Spencer, the abolition of government. But of government only as a directing and repressive power. It would at the same time and in the same degree, become possible for it to realize the dream of socialism.

What provides the link between these two views is distributive justice:

> Wealth would not only be enormously increased; it would be equally distributed. I do not mean that each individual would get the same amount of wealth. That would not be equal distribution, so long as different individuals have different powers and different desires. But I mean that wealth would be distributed in accordance with the degree in which the industry, skill, knowledge, or prudence of each contributed to the common stock. The great cause which concentrates wealth in the hands of those who do not produce, and takes it from the hands of those who do would be gone. The inequalities that continued to exist would be those of nature, not the artificial inequalities produced by the denial of natural law (George, 2005, p. 320).

The immediate effect would be the removal of the speculative rent line and a fall in property prices and rents. But more importantly, the barrier between labor and land would be removed; since only use of land would confer value, fortunes could be made only by production and not by speculation.

For George, ground rent is a matter of community values, because only the community gives value to land. Mere population increase, and not anything the owner adds, improves the value of the land (George, 2005, pp. 164-74). And since ground rent is a community product, it falls under distributive justice, and does not accrue solely to the benefit of the owner. If the owner appropriates it, as he commonly does, he appropriates what he did not produce. This is clearly a violation of justice. And by violating justice, it violates sound economics; neoclassical economics, for all its claims to be value-free, actually depends on a computation that assumes that each factor gets what it produces, a situation that is impossible is one factor gets one the community produces.

Equity and equilibrium

Jevons wanted economics to model itself as a physical science, but this is not possible. Physics deals with things that are moved by rules over which the thing has no control. But man moves himself to ends he is capable of choosing for himself. The humane sciences must therefore be different from the physical science. Economics is a humane science; the stars move in their courses because they have no choice, but markets are made by men, and men do have choices. Human systems must always choose between justice and chaos, and while we usually choose a little bit of both, we must at least be aware of the effects of our choices, effects which cannot be measured without some notion of justice.

If property were widely distributed throughout society, the neoclassical formulas would have a chance of working. For example, negotiations for a wage contract would be of an entirely different order than they are at present. Currently, workers often have little choice in employment; with capital restricted to a small class, the power to create jobs is also restricted. Therefore, wage contracts tend to be leonine, that is, based on a disproportion of power between the parties; the worker often has little choice but to accept the terms offered, terms that have nothing to do with productivity (marginal or otherwise), but only with the power relationships involved. Workers with scarce skills will have some negotiating power, while those with widely dispersed skills will have no power at all. If, on the other hand, the worker has a vast number of firms to choose from, and if capital is so widely dispersed that he has the option of starting his own business, then the wage contract is more likely to reflect the real value of the worker, and the formulas of Clark would be more likely to work, at least as a first approximation.

In attempting to transform "political economy" into the "hard" science of economics, the utilitarians cut off their discipline from the only sources that could make it "scientific," in any authentic sense of that word. These sources are a proper notion of man and a proper notion of justice. Without these notions, they had to reduce the human to the hedonistic and justice to something mechanical. But alas, the mechanism does not work. A science cut off from its own sources of truth and working with a false notion of man lacks any power, whether descriptive or predictive. Only a moral imagination, a power to see man as he really is and to imagine how he might best fulfill his nature, can restore to economics those things necessary to make it a science, to reconnect it with its neighbors in the hierarchy of science.

It is beyond doubt that economics, as we know it, has failed to reach the state of equilibrium that Clark and his colleagues predicted. Rather, all the advances in material science, and all the wealth produced, inequitably distributed, have moved the world further from justice. And all our noble efforts to correct the situation, all the money spent on "developing" the world, have left the poor poorer than before and raised not the level of equilibrium, but the level of injustice, bitterness, poverty, and instability. Daily we see before our eyes, in the parade of tragic headlines, the results of a science that is not science, the results of calculations that are miscalculations. Henry George saw the same parade; they have not changed. The world becomes richer while most of its citizens become poorer; as the gap widens, the instability increases, and equilibrium recedes as violence advances. But men of good will know that if we wish for peace, we must work for justice. The economic equivalent of this is that if we wish for equilibrium, we must work for equity, for equilibrium is economic peace and equity is economic justice, and you will never see the former without the latter; they are practically the same word, and very nearly the same thing.

Notes

1. During the middle ages, the term "corrective" justice became "commutative" justice due to a mistranslation. The word Aristotle uses is διόρθωτικός? (diórthotikós), "corrective" (LSJ). Although the term "commutative" has become more common, the term "corrective" is closer to the original sense in Aristotle. The philosopher seems to have modeled the distribution of output in terms of the thing produced. Thus, the cobbler received a number of shoes proportional to his contribution to the production process, while the carpenter received a certain number of tables and chairs. This is distributive justice. Since neither needed that many shoes or chairs, they then exchanged between themselves to correct the imbalance. This is corrective justice. Of course, cobblers and carpenters are paid not with actual shoes and chairs, but with money. Nevertheless, the corrective and distributive principles remain the same.
2. Clark (1908, p. 16). It is interesting that in driving prices to the cost of production, utility pricing theory is functionally a substitute labor theory of value, since the only real cost in production is labor.
3. One wonders who it is that bargains on behalf of nature in this "exchange," or what it is, precisely, that nature receives in exchange for her food, fiber, and mineral wealth.
4. Clark (1908, p. 191). This remark is aimed directly at Henry George.

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