Henry George Revisited

by GODFREY P. ORLEANS

THERE are many who maintain that the economic philosophy of Henry George would provide a rational basis for solving most of our economic problems. On the Georgian view, the problems of poverty, inflation, unemployment, urban deterioration and others might be solved by the simple act of removing the control of land from the private sector of the economy. This step would at once deter speculative trading in land and additionally provide public funds; the latter would permit a substantial reduction in those taxes which are presently a deterrent to productive employment.

Attractive as this solution might seem, the reasoning on which it is based is open to question. One cannot be unsympathetic towards those economists who have rejected the Georgian theory, and with it the solution, on logical grounds.

Henry George was a classical economist. Like most of his contemporaries he regarded money as a mere token of value, a neutral medium of exchange, having no value in itself. Money as a mere medium of exchange plays no active part in the economic process. Consequently on the classical view, any demand for consumer products or capital, must be equivalent to an offer of labor in an amount sufficient to replenish the products demanded. Henry George declared his allegiance to the classical point of view when he affirmed Say's law by stating that supply and demand are coterminous.

It many seem surprising that the conclusions reached by Henry George were quite the opposite of those reached by his contemporaries. To the latter, Say's law meant that since supply was itself an expression of demand there could never be overproduction. There must therefore always be a trend towards full employment and maximum production. To Henry George, Say's law meant that supply was itself an expression of a demand for less than that which was supplied. Hence there must always be a trend towards economic depression.

Henry George introduced into his reasoning the idea that, since the supply of land is fixed, the relative bargaining positions of land, labor and capital must change to the advantage of land with every increase in the supply of labor and every increase in the supply of capital.

The orthodox Ricardo and the unorthodox Karl Marx were aware of the principle of the unearned increment, but they attributed it to the general weakness of labor's bargaining position and could see no disadvantage to the capitalist. What Henry George did was to recognize that "an unearned increment" could not represent an increase in total real wealth, but must represent a loss to the capitalist and the wage earner alike.

Nevertheless there is a fallacy in the argument that the supply of land is fixed. In an economic sense land quantity cannot be expressed in terms of area, but must be expressed in terms of the labor that it will support*. Any increase in the total rental value of land must be due to an increase in total income, and must therefore correspond to increases in total wages and total interest. In other words, any increase in the demand for land, on the classical view, must correspond to an increase in useful employment and cannot be due to the withholding of land from productive use. To say that the bargaining positions of labor and capital must tend to deteriorate with respect to that of land, merely because the rental value of land must tend to rise in relation to wages and interest, is a tautology.

I see no reason to disagree with the orthodox classical view that the relative bargaining positions of land, labor and capital cannot vary, except spuriously, owing to the intimate interrelation of these factors.

And yet one fact stands out. Henry George propounded a theory of the economic cycle when his orthodox contemporaries denied that the economic cycle could even exist! There is surely something to be said for the Georgian view.

The first explanation of the economic cycle to be generally accepted, in principle at least, was put forward by J.M. Keynes in his *General Theory of Employment, Interest and Money.* Keynes recognized that money is not a mere token of wealth but does in fact have a value attributable to its liquidity. The measure of this value is, crudely speaking, the interest rate at which individuals may be induced to convert their cash holdings to investments. Since the real interest rate, which must vary with the efficiency of capital, may fall below the generally acceptable interest rate, individuals may at such times be expected to exercise a liquidity preference, in which case the quantity of money in circulation must fall. Such a fall will of course naturally tend to increase the preference for liquidity.

Although Keynes dealt exclusively with money in this regard, he did express the view that a similar phenomenon might in theory occur with items other than money, and he mentioned land in particular. Thus he envisaged the theoretical possibility of a "liquidity preference" in land. Clearly that would take the form of a demand for land to

*Henry George probably understood this better than anyone else, or so it would seem from his refutation of the Malthusian theory and his very lucid explanation of rent. It is surprising that he should apparently have ignored one of his basic premises when establishing another.

be resold, as opposed to a demand for land to be utilized. In other words, it would appear as a speculative demand.

At the time the "General Theory" was written, in the early 1930's, there was no evidence of speculation in land. Land prices, like all other prices, were very low because money was in short supply—that is, the liquidity preference in money was the controlling factor, Keynes therefore confined his attention to money as it was the only relevant factor at that particular time.

Since 1945 most western countries have experienced a relatively high level of employment, a rapidly increasing production level, and inflation. Moreover, the experience of the last twenty-five years appears to indicate that inflation is a necessary condition for economic growth and avoidance of a slump. Indeed, the experience of North America and Great Britain during 1969 and 1970 suggests not only that inflation is necessary to prevent a recession, but also that full employment cannot be maintained unless the rate of inflation exceeds a critical value. These experienes are quite inexplicaple on the classical view and on the Keynesian view of economics.

What is the evidence for "liquidity preference" in land today? Have land prices risen more rapidly than other prices since 1945? Have rental costs increased more rapidly than other costs?

If there has been any speculation in land, is there any reason to suppose that this was analogous to Keynes' "liquidity preference"? To answer this question it should be pointed out that land, like money, may be committed to productive use or may be retained as a store of value. There will be no incentive to withhold land from productive use unless its market price is rising or is expected to rise, at a rate sufficient to offset the loss of rental income. Once the market price begins to rise it will continue to do so, but why should it rise in the first place?

The answer is that land is normally secured on a relatively long lease and normally has capital invested in it in a physical sense. Any change in the pattern of production will therefore be associated with a redistribution of the labor force but not necessarily with a corresponding redistribution of land. Thus land which becomes redundant may be unsuitable for immediate re-employment, but it will still represent a rental cost. The effect of this must be that any increase in the level of production through an increase in productivity must increase the demand for land without increasing the demand for labor. Therefore rental costs and land prices must rise.

It is important to note that if rental costs rise due to this cause, they must continue to rise until there is a depression of such magnitude as to reduce the demand for land. By that time the economy will have been damaged.

At this point we have completed a circle, for this is the very problem that concerned Henry George. What is more, the solution which he proposed was quite analogous to the solution which Keynes proposed in relation to money. George did not know the welfare state, highly organized labor, monetary and fiscal controls; it was the combination of idleness and destitution around him which enabled him to understand the problem as no one had before. If he failed to express the problem clearly it was because the problem could not be expressed in the economic language of his time, and his contemporaries knew no other.

Perhaps therefore the only real criticism that can be made against Henry George is that his ideas were half a century ahead of their time. Perhaps, after all, he was not in essence a classical economist.

Mr. Orleans "met" Henry George at the London School of Economic Science twenty years ago and is "revisting" now in Toronto where he is associated with the HGS extension.

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Boston, like some other cities and states, had the most severe winter in a century, but in their five HG classes they graduated more students than ever. French Brandon, the director, shares the teaching responsibility with Mitchell S. Lurio, and they have a close working relationship with some of the other community schools. Basic Economics classes will begin in May at the Beacon Hill Free School Association, and the Boston University Free School—an extension of Boston University which teaches non-credit courses to interested members of the community. Speaking engagements are being accepted at various educational groups in this expanding program. The immediate emphasis is on a spring seminar for advanced students, using *Protection or Free Trade* and *Social Problems* as well as current texts on urban problems.

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The Chicago HGS has also begun a series of eight Friday evening meetings at Bild Library, 4536 North Lincoln Avenue, using *Social Problems* along with newspaper and magazine articles to direct discussion.

The Chicago Henry George Woman's Club welcomed at its 32nd birthday dinner in April the new graduates from Henry Tideman's recent class and installed new officers and directors. Alderman Nancy Simenz of Sheboygan, Michigan, spoke on "Youth in Politics." Miss Simenz was a political science graduate last year from the University of Wisconsin, and the following April she was elected alderman of the city. She studied Government Finance under Arthur P. Becker, a recent member of the roundtable conference on assessments co-sponsored by the Robert Schalkenbach Foundation.

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The progress of civilization necessitates the giving of greater and greater attention and intelligence to public affairs. We make a great mistake in depriving one sex of voice in public matters. If in a ruder state of society the intelligence of one sex suffices for the management of common interests, the vastly more intricate, more delicate questions which the progress of civilization makes of public moment, require the intelligence of women as of men. To effect any great social improvement it is sympathy rather than self-interest, the sense of duty rather than the desire for self-advancement, that must be appealed to.

—From *Social Problems* by Henry George, 1883