

THE ANNOTATED WORKS OF HENRY GEORGE BOOK LAUNCH AND CELEBRATION PART I FRANCIS K. PEDDLE: GENERAL EDITOR AND EDITOR OF VOLUME V *THE SCIENCE OF POLITICAL ECONOMY*

INTRODUCTION

The Henry George Foundation of Great Britain, along with the Robert Schalkenbach Foundation in the United States, have launched Volumes V and VI of the series *The Annotated Works of Henry George*. This is also a celebration of the completion of this series.

First to Henry George himself, a not insignificant historical figure and source of inspiration to many.

1. Who is Henry George?

Were this book launch held a hundred and twenty years ago here in London, or just about any other place in the world, we would have had to call the fire marshal for crowd control. George's *Progress and Poverty* is arguably the most famous book to come out of the nineteenth century. Frustratingly, for those who study his works, George is the most influential economist that nobody has heard of.

Progress and Poverty is not an economics text in the way we have come to expect in the modern genre of the discipline. The same can be said of *The Science of Political Economy*. But then again most treatises on political economy in the nineteenth century would be unrecognizable today as economics texts. It combines economics, ethics, science, politics, religion, history, and exquisite rhetoric in a large scale synthesis. Speaking of rhetoric, my colleague and co-editor, Professor William Peirce, has provided a new Introduction to the new edition of *Progress and Poverty* in the series. He shows just how powerful and influential George's rhetoric was on the diverse audiences of his day. This is rhetoric in the classical and most refined sense of the term. Well crafted, nuanced, thoughtful, substantial, and immensely persuasive both morally and conceptually.

The same can be said of *A Perplexed Philosopher*. On first read, it comes across as a unrestrained, sardonic, and somewhat unpedantic attack on Herbert Spencer, a very famous, well-respected philosopher in the nineteenth century now only read by niche historians of the discipline. As Joseph Milne aptly points out in his Introduction to Volume VI, *A Perplexed Philosopher* is a finely reasoned critique of many of the fundamental presuppositions of the Victorian Age. That critique not only encompasses the land issue, but also cuts through many of the erroneous shibboleths of the social philosophy of the day.

2. Who was Henry George?

There is a large literature that can help us answer that question. And while we may answer the question anew for historical reasons, there are even more pressing reasons to answer it for our current economic and social woes. George made very strong claims for the centrality of his solution to the economic paradox. The most singularly important historical point about what he called his "sovereign remedy" is that there has been virtually no economist since his time who denied that there is no role whatsoever for his solution to the economic pain of modern industrial and post-industrial society. The arguments are usually about its efficacy, or overreach, or political practicality.

No one has denied that there is a pervasive, unavoidable, and in many ways insidious thing called "economic rent." It is often made somewhat less insidious by calling it profit or the just rewards of entrepreneurship. Economic rent is by definition something "very public," yet today it does not exist in the public consciousness of the economics profession because there is no such thing as land, only labour and capital. It has taken some effort to conjure away economic rent from the psychology of the popular economic mind, burying it in mortgage interest, or in the legal fictions that abound in real estate and assessment practices, or in linguistic circumlocutions like talking about the housing crisis without ever mentioning land, or site selects, or urban ground rents, or discussing the real nature of wealth.

3. The Henry George Literary Corpus

George has left us a significant and very approachable literary corpus. His style is thoroughly engaging, florid, anecdotal, forceful, trenchant, and frequently given over to an energizing indignation. *The Science of Political Economy* and *A Perplexed Philosopher*, the books being launched here today in new critical editions, are Volumes V and VI in a series entitled *The Annotated Works of Henry George*. These two volumes complete the series, which was an eight year project.

Progress and Poverty, George's most famous and influential work, is Volume II in the series. To quote from Professor Peirce's Introduction by 1905 "more than two million copies of the book had been printed, counting all countries and all languages". Economists, often protecting the status quo in the distribution of wealth, nonetheless had to take note of its omnipresence.

Even sparsely populated Canada by the 1930s could boast of four or five Henry George Schools in its major cities and a Henry George Foundation of Canada.

4. Henry George the Politician

George was not content to be an armchair economist or backroom ethics advisor. He came to prominence in the mid-1880s in his campaign for mayor of New York City. If you think our politics are vicious and degrading read Ed O'Donnell's recent *Henry George and the Crisis of Inequality*. Tammany Hall went after George with a vengeance. He barely lost to Abram Hewitt in what was by all accounts a less than savoury ballot count. If it was any consolation to anybody thereafter he did beat Teddy Roosevelt, who came third. Nevertheless, the campaign of 1886 was a highwater mark for labour politics in American history and George was at its epicentre. *Social Problems* (1884), a distillation of *Progress and Poverty*, but even more so a rhetorical and political tract, geared up George for the mayoral campaign of 1886. It is well known that George in varying ways had a significant political influence on Leo Tolstoy, Sun Yat-sen, and Winston Churchill. Even a few philosophers, such as John Dewey, thought he provided the only antidote for what ails us.

5. Origin of the Series

The sponsors and publishers of the series are the Robert Schalkenbach Foundation (RSF), the Henry George Foundation of Great Britain, the Henry George Foundation of Canada, Rowman & Littlefield, and Fairleigh Dickinson University Press. The resurgence of George's philosophy since the Great Recession required a solid scholarly foundation. Although there have been many reprints of George's works, and occasional new translations, there has never been a critical, annotated edition of his major works. This is unusual for an author of such historical and intellectual significance as George.

The more recent resurgence of Georgist economics has grown primarily out of the ongoing and wholesale privatization of publicly created wealth in the predominant philosophies of neo-liberalism and what generally passes for "legitimately" earned income in a putatively free market economy. Much of the income accruing to the one per cent has a morally questionable status. This is not unlike the moral disapproval of unearned income that one finds in the classical political economists, such as J.S. Mill and Henry George.

6. Why The Six Volume Henry George Series?

Past reprints (Doubleday, Robert Schalkenbach Foundation) have outdated prefaces, introductions, and indexes. There was a need for updated scholarly introductions and for extensive critical annotations. Volume VI, *A Perplexed Philosopher*, also contains a cumulative index for all six volumes, which provides an invaluable scholarly tool for future researchers.

THE SCIENCE OF POLITICAL ECONOMY

Two years before the publication of *Progress and Poverty* (1879) and twenty years before *The Science of Political Economy* (1897), Henry George gave a lecture at the University of California at Berkeley entitled "The Study of Political Economy." There is

much in this lecture that foreshadows George's mature approach to the discipline. Methodologically, he talks about how "mental experiments" are crucial for economics. In the same vein he stresses to the students the need for conceptual rigor, defined by him as separating, combining, and eliminating. He says that political economy must confront the great paradoxes of society. We also have the familiar language of laws and principles. George declares that the law of social life is the law of liberty, and that political economy can save us, and that humanity can progress. This is language very different from Ricardo and Malthus at the beginning of the century. Indeed it is more reminiscent of the optimistic philosophies of civilization of the late Enlightenment. Political economy is a "simple and attractive science," but ominously George notes that it has taken on an air of "repellent abstruseness and uncertainty." Without being fully aware of how pervasive the abstruse world of modeling would come to dominate economics, George focused his critique on the Austrians and the obscurities of Whateley's "catalactics," and William Hern's "plutology," the latter being one of the original professors of political economy at the University of Melbourne in the mid nineteenth century. He is also explicitly declared that the laws of economics are not the laws of mathematics and it is dishonest to commingle the two.

(i) Symmetry and Natural Law

Both an economics based on laws framed in words and a model-based economics have to deal with the problems associated with meaning and significance. The language of natural law has been embedded in the Western tradition for millennia. Its most succinct formulation was provided by Cicero in his *De Re Republica*. Classical economics views its peculiar laws as being no different than those of physics or chemistry. In this sense, economics is more a "hard" science than a soft science in the panoply of the social sciences. Economic laws reflect the order of nature. They are immutable, regular, and form the basis of predictability, from industrial fluctuations to market behaviors in individual cases. For George, natural law controls, within certain ranges, all the variables of a complex economy. They are the ultimate source of its predictability and meaning. The distortion of these laws through human actions, be they coercive, violent, or legislative, will invariably lead to a re-balancing, which, less euphemistically put, means economic pain for someone or some group.

In model-based economics the inputs are controlled by the economic imaginary. The economic object that a model projects must be subject to rules. These rules originate with the structure of the model, be they algebraic or mechanical. They must also grapple with the economic content the model supposedly embodies. The latter could be determined by anything, i.e. space/time dictions, distance to market, quantity of exchanges, inter-temporality, the list is infinite. This is, of course, the Achilles heel of model-based economics. There are too many variables to build up a reliably comprehensive model of the macro-economy. The concentration of rent in a highly urbanized, post-industrial economy is obviously very different from an agrarian economy. The intensive margins are different. Law-based economics is not dependent on the variables of the economy writ large, or of human nature for that matter. It views the asymmetries of the economy within the controlling parameters of economic law while allowing for the free play of human agents. The law of economic rent is the



main filter in Georgist economics for the lawful symmetries, and the particular human asymmetries, in any given economy. It is always present, but how it is present is infinitely complex.

The symmetrical structure of George's view of natural law dictates that both sides of an equation must be accounted for in any given economic proposition. This is obvious in demand and supply curves, for instance, but George's sense of symmetry is much more global. Unjust wrongs must also deal with unjust possessions, for instance, in the quest for social and economic justice. Infrastructure spending must involve the public capture of the rents that such spending inevitably generates. This is opposed to the asymmetries of an economics of "trade-offs," where one side of the equation is in a negative relation with the other. For instance, income taxation, understood as a deadweight loss, is a trade-off with productivity and economic incentive. Symmetry, for George, means that both sides of the equation are mutually reinforcing.

(ii) What is Political Economy?

George puts forth some extraordinary, for us, claims about the nature of political economy. There is no individual, or aggregate of individuals, in his *The Science of Political Economy*. It is an economics of community and that community is an organic, natural whole. George is no different from classical economists generally who focus on the laws of political economy such as subsistence wages, the law of interest, or Marx's economic determinism and capitalist cycles. These laws are not simply the inductively catalogued effects of the aggregate actions of individuals, as is frequently suggested, but something embedded in the very order of the economic world in the face of which human decreed or legislated actions are ultimately futile. With the eclipse of classical political economy in the nineteenth century and the rise of a subjectivized *homo economicus*, natural law in economics also receded. Modeling became centred on the two-factor symmetries of interactive individuals. This is part and parcel with the transformation of the discipline from a three-factor to a two-factor orientation. Eventually only labor and an expansive definition of capital become the twin poles and the *modus operandi* of causal explanation and indeed experimentation in economic research.

George defines his scientific object as follows:

Political economy is the science that treats of the nature of wealth and of the laws of its production and distribution.

This science has no concern with public finance, culture, politics, psychology, or sociology. In fact, much to the chagrin of Georgists, it has nothing to do with taxation. Economics is not a disquisition on human nature. We are neither "incorrigibly selfish" nor "unfailingly benevolent." It does deal with property, but in the abstract, and not as a human institution, contrary to J.S. Mill. Political economy is a theoretical science, but is equally the most practical of the sciences. It is a science that requires semantic transparency, but also system and simplicity. Humans are "producers" not "creators." We live and produce within nature. The essence of civilization lies in the "body economic," or the Greater Leviathan, as George liked to style it, and not in the body politic. The most common error in economics is the mixing

book launch

of human and natural law. The Georgist perspective demands something that you might not expect. Natural economics must be purged of human law and not the converse. An economic system requires a first principle. All deductions and inductions in economic science methodologically revert back to this principle, which, for George, is simply the “satisfaction of desires with a minimum of exertion.” At first glance this seems like an efficiency principle, but on further analysis it contains a distinctive principle of distributional equity. The first principle of economics completes a methodological circle. It is also the internal method of that circle, from the consideration of the relation between wealth and value, to the theory of money, to distribution. Each element of deduction complemented by observational induction is one of “imaginative experiment.”

How better a way to describe model-construction than one of imaginative experiment. Just as George can be seen as one of the more prophetic writers on the urban economics of the twentieth century, he can also, ironically, be taken as making a strident theoretical and methodological case for the primacy of modelling in the modern economy. His hypothetical thought experiments are word-based and not spatial or algebraic. He constructs fictional economic narratives out of popular stories, myths, and idealized portrayals of human interaction with nature. George at times characterizes his approach as the “imaginative experiments” of common sense. This explains his appeal to a much wider audience than anyone in the fledgling neo-classical tradition could ever lay claim. It is nevertheless a spatialized thought experiment along with many other Georgist inspired models that are easily put into geometrical, diagrammatical, or algebraic language. Marshall, Jevons, Knight, Newlyn, and many others intuited that models were the proper object of economic science, but it was George who made the pure theoretical argument that the ideal science of the economy is a pure wealth, production, distribution model focused only on the whole and purged of all individuated legislative or policy prescriptions. This is a vision of the science that is as radical as George’s reformist agenda. It is, however, an incremental radicalism that is has often been overlooked in the history of economics.

(iii) Wealth and Value

Book II “The Nature of Wealth” in *The Science of Political Economy* combines historical critique, logical analysis, conceptual construction, and economic theorizing. George’s historical critique of economics is threefold: (i) classical European economics; (ii) American economists; (iii) marginal economics and the Austrian school. Generally, George groups these critiques under “scholastic” or academic economics, though the term “scholastic” is at times more narrowly used for the Austrian school, which he also labels on occasion as “psychological.” George reserves his most polemical attacks for the Austrians. Their theory of value is one-sidedly subjective. It is usually seen as the basis of methodological individualism in economics. Edgeworth’s Box works well in conjunction with methodological individualism because it can be expanded *ad infinitum* from the absolute minimum of two economic actors into the aggregate or macro-economy. George’s critical history of political economists up to his time should be taken as a topographical guide to his own concept of wealth.



The theoretical core of Book II of *The Science of Political Economy* revolves around a search for the definition of wealth, its essential nature, and the relation between wealth and value. Today, the term “value” predominates though its use often suffers from the same vagaries and obfuscations as did the term wealth in George’s time. Indeed, value-theory has become so ubiquitous in multiple disciplines from philosophy, to psychology, to economics that it has been drained of all but context-specific meanings. The bottom line, economically, for George, is that all wealth has value, but not all value is wealth. Wealth is therefore the predominant term. Wealth itself is defined by him through a recrafting of the classical distinction between value-in-use and value-in-exchange into a distinction between value-from-production and value-from-obligation.

Conceptually, Book II has the following three divisions:

- (i) Chapters I to VIII – inquiry into the nature of wealth;
- (ii) Chapters IX to XIV – analysis of economic value;
- (iii) Chapters XV to XXI – true meaning of wealth, value from production/value from obligation.

George’s concern is to infuse objectivity as much as possible into the meaning of wealth. His philosophical orientation is fundamentally reconciliatory. The arc of George’s philosophy functions within the symmetry of understanding the mutual complementarity of economic opposites. This means that the subjective aspect of value must be integrated into the objective determination of the nature of wealth. Individual foibles and interests, or perversions for that matter, have no place in this consideration. The subjective, for George, is something writ large as either the human spirit in its innovative intellectual energy or the generalized human desire to satisfy needs and wants. This is another reason why economic modeling, in a Georgist universe, is better focused for heuristic purposes on large-world models of economic rent than the particular “rent-seeking” motivations in all sorts of contracts and exchanges.

There are five principal delusions with respect to the meaning of wealth:

- (i) *Confusing the wealth of the individual with that of society;*
- (ii) *Alignment of wealth with money;*
- (iii) *Allowing incongruities in the meaning of wealth become a matter of convention;*
- (iv) *Abstract identification of wealth with either land or labor;*
- (v) *Perverse reflections on the relation between land and labor and the confusion of the two leads to the abstract concept of “pure capital” which includes nature.*

The alignment of wealth with money is generally understandable given its fungibility or easy convertibility. Inflation, fractional banking, and the status of being “asset-rich/income poor” all belie this equation. Debt cancellation advocates explicitly deny the connection. Money is a legal fiction and such fictions can take many forms. Money, as a medium of exchange and a measure of value, is a direct application of the first principle of political economy. It cannot therefore be at the root of the definition of wealth, either as fiat money, credit money, or tangentially as commodity money.

Wealth is not reducible to nature as such or labor as such. The potential of labor, skills and capacity, is as necessary for productive activity as is the availability of natural resources. The main point is that the potential of labor, so called human capital, is as devoid of wealth as the potential of nature, natural capital. The actuality of wealth only comes into being when initiatory labor acts on passive nature. In the Georgist universe there is no such thing as natural capital or human capital. Nature is creative and creates anew, but it is not productive. On the other hand, human labor is productive, and can be originally so, but it is not creative. Labor is the initiatory factor in all production, but there is only production when there is interaction with nature. When the cooperative principle takes over wealth is the result of “the socially conjoined effort.”

George’s theory of wealth makes the following claims:

- (i) *Wealth and value are not the same, all wealth has value, but not all value is wealth;*
- (ii) *Economic value is not an intrinsically determined attribute of a thing;*
- (iii) *Political economy measures exchangeability, but exchangeability cannot be totalized or absolutized – relative value;*
- (iv) *We seek minus-exertion in plus-exertion – labor saving;*
- (v) *Exchange only recognizes value as an indicium of minus-exertion;*
- (vi) *Value-from-production/value-from obligation lies behind a command theory of the exchange of the expectations of minus-exertion;*
- (vii) *Political economy is really a philosophy of urban economics primarily.*

The analysis of economic value in relation to wealth is ultimately rooted in “exertion.” The first principle of political economy tells us that plus-exertion is what human beings want to avoid. The whole point of plus-exertion is to negate itself. The goal, or *telos*, of plus-exertion is minus-exertion. Exchangeability, and the values determined by exchange, is the medium where minus-exertion acquires its objective value. Exchange pricing is the recognition of value as an indicator of minus-exertion. Minus-exertion is in effect command-exertion. It is labor-saving or the command theory of the exchange of the expectations of minus-exertion. The theory of value is necessarily futural. It is not determined by past production or past exertion of labor. It focuses on an expectation of a future reduction in exertion. This is ultimately the landlord’s privilege or the rent seeker’s game – the power to command without a return of their labor.

(iv) Henry George’s Rent Model

A pure economic rent model cannot have any productivity or utility variable. George’s rendition of the rent model in algebraic form is:

$$\begin{aligned} \text{As } \text{Produce} &= \text{Rent} + \text{Wages} + \text{Interest} \\ \text{Therefore, } \text{Produce} - \text{Rent} &= \text{Wages} + \text{Interest} \end{aligned}$$

All wealth produced in a community can be divided into two parts which are separated by the rent line. This is determined by the margin of cultivation where the return to labor and capital does

not involve the payment of rent. Below the rent line wages and interest must be paid. Everything above the line goes to the owners of land. In progressive countries and urbanized economies the increase in the value of land is “swallowed” by rent while wages and interest stagnate or fall. The Georgist rent model is the core of his economic philosophy. The central role of economic rent in determining wages and interest was the primary contention of George’s critics. The model lies at the heart of Mason Gaffney’s ATCOR and EBCOR models, i.e. all rent and all excess burdens come out of rent.

(v) Modern Rent Models

The principal elements of a research agenda for the modelling of economic rent are found in Mason Gaffney (2009b). He lists thirty-one reasons why assessed land valuations for tax purposes fall short of market valuations. With respect to the market values of land there are four main areas of downward assessment bias, as noted by Kumhof, et al. (2021, 30): (1) failure to apply the building-residual method as opposed to the land residual; (2) assessment on the basis that the current use, often suboptimal, is permanent; (3) assessment lag; and (4) use of a capitalized income method for business properties, despite often suboptimal income. The Kumhof model distinguishes between Land Rental Value Taxation (LRVT) and Land Asset Value Taxation (LAVT). The latter is optimal from a Georgist perspective because it includes the capitalized value of future after-tax rental values *and* gains due to price appreciation. Economic rent models focus on the share of land and other non-produced assets in the overall value of physical assets, which include non-produced and human-produced assets. As the Kumhof model shows the value of non-produced assets in the total of assets is very high on a global comparative basis. The value of land assets in most industrialized economies as a share of total physical assets ranges from a low of 40% to a high of 60%. The Kumhof model simulates tax reform experiments at a 51.1% calibration, but also performs simulations at 40% and 60% in terms of land share. This is necessarily a fundamental characteristic of Georgist tax impact models. Obviously, the lower the land share the higher must be both the tax rate and the tax incidence in order to achieve comparable output and welfare gains.

The Kumhof model contains many valuable international comparisons using both national and OECD data. Comparative data between Canada and Australia. For households in both countries the share of land in total non-financial assets has increased substantially since the 1990s from 30% to 40-45%. For Canada it is currently 55% and for Australia a historically extraordinary 65%. The Kumhof model assumes roughly equalized rates of return on produced and non-produced assets. This means that half of the assumed or deemed rate of return on capital is really on non-produced assets. This has very significant macroeconomic implications for output and welfare gains.

The modeling of economic rent in Canada and Australia in recent years yields some significant comparative data. For instance, Canada in 2022 has a total economic rent of \$421 billion from six categories (1) land; (2) minerals; (3) energy (oil and gas); (4) forestry, (5) fisheries, and (6) air (carbon). The largest

component by far is land value, which peaked at \$6.4 trillion in the second quarter of 2022, but which has declined since then because of rising interest rates. Focusing on the land sector would undoubtedly yield the most rent across all jurisdictions, municipal, provincial, and federal. Other sectors such as minerals and energy can also contribute significantly to a reduction in income and sales taxes. It is estimated that a 50% tax on total land value would eliminate income taxation on the first \$71,900 on income, which is more than five times the current personal exemption in Canada.

With respect to Australia economic rent has increased from 2% of GDP in the 1950s to 20% in 2017. Analysis shows that the fraction of GDP flowing to landowners does not trickle down to labor and capital. The fraction of GDP flowing to land is significantly underestimated in economics texts. This is the near universal conclusion of many studies in many different jurisdictions. Standard textbooks over many decades erroneously put the share of rental income in GDP to often less than 2%. Comparative international studies as well as national rent models, such as those in Canada and Australia, show that these are gross underestimates. This is perhaps the single greatest gap in economic intelligence in the post war era. It should also be noted that converting taxes on labor and capital to taxes on economic rent results in the generation. For instance, the limited time pre-emption that is associated with a parking meter has a direct cost-benefit equation. Political rents, on the other hand, have very diffuse unearned income benefits to the recipient. Generally, speaking the literature on economic rent focuses on land, mineral deposits, and the profits of unregulated monopolies as the optimal asset bases for the re-capture for public purposes of unearned income.

CONCLUSION

It is perhaps to the disheartening weight of inter-generational inequality that we might focus our condemnatory gaze. It constantly leaps out from the multiple and always simmering crises facing modern economies. The invidious consequences, for example, of the global housing crisis are too numerous to itemize here. So it is better to put it into moral terms to avoid the outlier arguments. Is not everything we do, we do for the next generation, for posterity, for human progress? Progress is only possible where there is co-operation and equality. The housing crisis has turned the next generation into the grand precariat, to use a term of Guy Standing’s. The correlation may seem tenuous, even preposterous. George, however, knew all too well the connection. And he would undoubtedly say that we have set ourselves up for a great retrogression, all too common in history. We are the Titans of ancient mythology eating our own children.

George was, however, an optimist. The desire for progress is strong and irrepressible. Civilization can and will overcome its self-destructive tendencies. Better societies and better lives can still be envisaged. 📖