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Source: *American Journal of Economics and Sociology*, Vol. 48, No. 3 (Jul., 1989), pp. 311-320

Published by: [American Journal of Economics and Sociology, Inc.](#)

Stable URL: <http://www.jstor.org/stable/3487369>

Accessed: 20/12/2013 16:34

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# Henry George's Labor Theory of Value: *He Saw the Entrepreneurs and Workers as Employers of Capital and Land, and Not the Reverse*

By ROBERT J. RAFALKO\*

ABSTRACT. *Henry George*, the 19th century American *economist* and *social philosopher*, saw the problem of protecting the *working peoples' wages* and *jobs* one of *distributive justice*. He attacked as fallacious the idea that *equality of opportunity to work* was a "*privilege*" accorded to *labor*. The *protectionist system*, he held, was based on the antidemocratic notion that "the many are called to serve and the few to rule." The *paternalism* of protection, whether in the *domestic* or the *world economy*, is "the pretense of tyranny," he argued. He holds that labor, including workers and entrepreneurs, and not landholders, or owners of capital, is the source of all economic value. Labor, he reasoned, "employs capital," and not the reverse. George's theory of *value* was an improvement on *Adam Smith's*, putting into it a greater emphasis on the importance of *land* in the analysis of the *distribution of wealth*. But it was a *production cost* theory, with all its problems and advantages.

## I

### Henry George and the Theory of Value

THE PROTECTION OF wages and the corresponding security of employment is for Henry George a problem, not so much in economics, but in the theory of distributive justice. George, the 19th century American social philosopher who revived the participatory democratic theory of the Jeffersonian tradition, was also an economist, the last of the contributors to the Anglo-American classical school.<sup>1</sup> We have, therefore, in an early formulation of the American business ethic, a comprehensive social theory of value which is something that so many current theories of market behavior noticeably lack.

The real strength of protectionism, according to George, is drawn from the

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American Journal of Economics and Sociology, Vol. 48, No. 3 (July, 1989).

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prevalence of a major deception. “Beneath all the reasons assigned for protection,” he writes, “there *is* something which gives it vitality, no matter how clearly those reasons may be disproved.”<sup>2</sup> It is George’s basic contention that every argument adduced in favor of protectionist policies has at the heart of it a basic presupposition—and one that George cannot accept—to the effect that “the opportunity of work comes to be regarded as a privilege, and work itself to be deemed in common thought a good.”<sup>3</sup>

To see on one very important level what George means here, we should look first to his belief that protectionism is a pillar of an anti-democratic tradition—one that stands squarely outside of the Western Liberal/Capitalist framework. Western Liberalism can best be defined in terms of the possession of interests. The “liberal” (in our sense—not to be confused with the counterpart to American conservatives, many of the latter being strictly speaking “liberals” in our sense) maintains that we are each of us the best judges of our own best interests. This is also the hallmark of modern democracy, and the foundation upon which Adam Smith constructed his theory of capitalism.

The theory of Paternalism, on the other hand, denies the central thesis of Western Liberalism. It maintains that we are not the best judges of our own best interests, that someone else more enlightened (the expert, or the leader, or the ruler) is more qualified to make those decisions for us; the leader does what he does *for our own good*.

That George believes the protectionist system is paternalistic in its origins can be seen readily from this statement: “apply the term ‘protective’ not merely to the system of robbery by tariffs, but to the spirit that teaches that the many are born to serve and the few to rule; . . . .”<sup>4</sup>

George repeatedly hammers home the near-synonymity between the word ‘protection’ and the word ‘paternal.’ To George’s thinking, it is no accident that the words are allied in their meanings. In still another place, George uses a graphic metaphor to describe his thesis. He writes:

The protection of the masses has in all times been the pretense of tyranny—the plea of monarchy, of aristocracy, of special privilege of every kind. . . . The protection that those who have got the law-making power into their hands have given labor, has at best been the protection that man gives to cattle—he protects them that he may use and eat them.<sup>5</sup>

While we are easily persuaded by George’s powerful rhetoric, we may nevertheless be inclined to press questions about fine distinctions between *protection* on the one hand and *paternalism* on the other. For example, programs such as Social Security offer some protection to the elderly from financial distress, but one might justifiably dissent from the conclusion that such programs are in the final analysis paternalistic in a relevant sense. (Under social contract theory, it may be argued that each of us judges that it is in our own best interest to

provide of our own accord for social welfare programs without at the same time surrendering our *capacity to judge* our own best interests. This makes the case of the garment industry more problematic, since the appeal for protection stems not from those who represent special privilege but from the workers' unions themselves.

Yet, George bases his contentions on much more than the apparent similarities between the meaning of the words 'protection' and 'paternalism.' He argues that proponents of tariffs argue for protection of wages and employment when all the while they intend only the protection of their own holdings. It is, in this society, only *their* appeal that carries any weight. They are, in George's terms, the masters of privilege, and they extend to the working man or woman the pretense that the conditions of his or her employment are derived from the employer's whim and largesse. George argues that this is a monumental deception and that the injustice lies here.

## II

### Labor as the Employer of Capital

IN ORDER TO SEE why George holds this thesis, we must consider that, first, George held to a rather unique labor theory of value; and, second, that he assumed a singular thesis on the rationality of man. On the first point, the labor theory of value, consider this passage from *Protection or Free Trade*:

When we consider that labor is the producer of all wealth, is it not evident that the impoverishment and dependence of labor are abnormal conditions resulting from restrictions and usurpations, and that instead of accepting protection what labor should demand is freedom?<sup>6</sup>

George uses the term 'labor' equivocally in this passage, but does so presumably from intention. He means both labor as the work *employed* in the creation of a product and labor as the collective term for the *workforce* (i.e., the "laborers"). When he says that "labor is the producer of all wealth," he means that labor (in our first sense)—and not land-holdings, and not capital—is the source of all economic *value*. What George objects to, in his *Progress and Poverty*, and still again in *Protection or Free Trade*, is the thesis that it is either land-ownership or capital which is the source of value in a product. As he writes in *Progress and Poverty*, "it is not capital which employs labor, but labor which employs capital."<sup>7</sup> The reversal of this relationship is a fiction which maintains the retention of privilege. Furthermore, George contends that capital does not supply the materials of wealth, but rather that "the materials of wealth are supplied by nature."<sup>8</sup>

The fundamental distinctions between capital, labor, and wealth, and the translation of wealth into the control and ownership of land and its resources

represents the backbone of George's theory of value. Unfettered by the bonds of privilege, and left to their own devices in the management of resources coupled with their own labor, laborers will produce the necessary products and do so in abundance. This is the central thesis of George's economic theory, and it hinges entirely on his interpretation of value.

George's labor theory of value is not naive—far from it, although such theories are out of vogue at the moment. In fact, George's theory of value represented something of a departure from the tradition. Consider that in formulating his own labor theory of value, Adam Smith wanted to demonstrate that land was not the only source of wealth, and proposed that in every exchange we can think of equal quantities of labor being exchanged. Prior to Adam Smith, laborers were thought of as bonded to the land, and Smith, in insisting on the primacy of labor in the estimation of value, had effectively scuttled the old land theory of value which had previously dominated economic thought.<sup>9</sup> However, Adam Smith's theory of value had run into complications. Chief among them was the apparent disproportionality between labor expended and the value of a finished product.

Consider the following example in order to illustrate this point. Suppose there are two farmers, one of whom works the rocky soil of New England and another works the lush and fertile soil of Nebraska. The New England farmer expends most of his labor on the clearing of rocks from the soil before he can even begin planting his corn, while the Nebraska farmer has little to do in the way of preparing the soil for planting and can begin ploughing furrows almost right away. Let's say that each farmer has the same area of land to plant and the crop yield is approximately the same, but the New England farmer gets no higher prices for his crop than the Nebraska farmer on the national market even though the former labored much harder. Adam Smith's labor theory of value would be hard pressed to account for this discrepancy. Henry George, while he might have problems with other examples, is not, however, vulnerable to this counterexample.

The reason that George's theory of value represents an improvement on Adam Smith was his willingness to break from tradition and return into the estimation of value a greater emphasis on the importance of land in such calculations without ever surrendering the overall stress on the primacy of labor in relationships of exchange.

### III

#### **Value and Social Justice Theory**

WHAT IS NOT IMMEDIATELY OBVIOUS from this discussion of the theory of value is the implication such theories have for social justice theory. But those implications

have real importance. Adam Smith's theory had ushered in a new era of egalitarian thinking with his insistence on the dignity of labor. The consequences his theory had for distributive justice consisted in the expression of the ideal that hard work, ingenuity and enterprise deserve to be rewarded.<sup>10</sup> He thereby broke ranks with the apologists for the landed gentry, and paved the way for the democratic principle of equal opportunity.

But Adam Smith and his successors placed undue emphasis (in George's mind) on the primacy of capital in the employment of labor. As a result, equal opportunity and the dignity of labor became subservient to the realities of capital accumulation: no one could work without the prior investment of capital to create occupational roles, and the capital rested in the hands of only a small number of people in the population.

The main thrust of Henry George's comprehensive theory of economics is that this reliance on capital is a deception and makes employment a privilege derived from the holders of capital. In its place, and for the sake of democratic egalitarianism, George insisted that we regard capital as the least important component in the triad of wealth, labor and capital in the workings of the economy. George placed a renewed emphasis on land holdings as providing the raw materials of wealth and argued that according to the degree of access one has to the use of the land, either the capital-wielding classes or the labor-employing workforce would be enhanced. In fact, George continued, we have a condition whereby the capital-wielding classes have a disproportionate access to the use of the land and upon that state of affairs the role of capital has been exaggerated. It appears, then, that only with the investment of capital can jobs be created.

The effect is that the allocation of jobs derives *paternalistically* from the capitalist class. But if this is a description of the status quo, George is also quick to stress that this condition is arbitrary and can be (*must* be) replaced with a reordering of priorities in the relation of capital to land. Under present arrangements, it is the wielders of capital who manage the economy by deciding whether land and its resources are employed in the creation of wealth or whether it should lie fallow and unexploited, thereby denying workers the opportunity to productively employ their talents and labors. Under a new arrangement, where the working man has a greater role in the determination of the use and development of land and its resources, then and only then can the powers of labor be fully released. George sees the land value tax as the direct mechanism needed to release the powers of labor through the prevention of the unneeded and unjustifiable hoarding of land by some of the owners of capital.

All this has, of course, powerful ramifications for the justification of protectionist policies. Time and again, George insists that such policies always stem

from the demands and lobbies of the wielders of capital, and that when the demands for tariffs are made in the name of protecting wages and employment, in reality, they benefit only some of the capital-owning classes themselves. The supposition that tariffs protect jobs, therefore, is a sham. It is George's contention that the short-term good of the few under protection hurts the long-term interests of all, even the few who initially benefited. In this respect, George is flatly denying the dogma of the Invisible Hand.

## IV

**The Dogma of the Invisible Hand**

THE SENSE in which George sees a conceptual connection between protectionism and paternalism is closely allied to the way in which Adam Smith's Invisible Hand Thesis is paternalistic (although on first glance it isn't obvious that it is). The Invisible Hand Thesis states that the free pursuit of private interest automatically redounds to the public good. But the Invisible Hand Thesis awkwardly fits into the overall scheme of Western Liberalism and is surely one of the reasons that Liberalism fails to take its own tenets seriously and tends to degenerate into paternalistic programmes.

One consequence of the thesis is that those engaged in the pursuit of their own interests should seek tight restrictions on the pursuits of others so engaged. Such restrictions would be perceived as augmenting the interests of the few who are in a position to put them in place. The Invisible Hand Thesis, therefore, is either incoherent or false, since those seeking their own interests will seek to restrict others from the free pursuit of their own interests. Such restrictions are paternalistic because they suppose that those whose sense of their own interests leads them to support minimum wage legislation (for example) are incompetent to protect themselves and should be constitutionally restrained from doing as they normally would.

Religion and experience alike teach us that the highest good of each is to be sought in the good of others; that the true interests of men are harmonious, not antagonistic; that prosperity is the daughter of good will and peace; and that want and destruction follow enmity and strife. The protective theory, on the other hand, implies the opposition of national interests; that the gain of one people is the loss of others; that each must seek its own good by constant efforts to get advantage over others and to prevent others from getting advantage over it. It makes of nations rivals instead of cooperators; it inculcates a warfare of restrictions and prohibitions and searchings and seizures, which differs in weapons, but not in spirit, from that warfare which sinks ships and burns cities.<sup>11</sup>

This is the heart and soul of George's objections to protectionism and can be understood only against the background of the social order that George proposes: the one in which the workers themselves, through the imposition of land value taxes, have a say in how and when and where resources are to be employed.

## V

**The Rule of Rationality**

HAVING TAKEN THE FULL THRUST of George's economic theory under purview, we might now want to ask what effects the theory of protectionism has on existing markets. What consequences would such a theory have on the garment workers, whose industry is presumed in jeopardy from foreign competition? In order to provide a tentative answer to such a question, we need to take under consideration one more aspect of George's larger theory of economics, one that is especially related to the nature of rational economic man.

The rule of rationality for George is contained in a theory of human nature. Certainly, George takes it for granted that the basic rule for rationality in the Adam Smith tradition remains in force: that we act in such a manner so as to get the most value for the least value expended.<sup>12</sup> But to this precept, George adds certain other conceptions that regard the ultimate disposition of the worker of his or her work.

Chief among these is the entrepreneurial conception of man—*i.e.*, the idea that each man or woman has in himself or herself the motivation and skills necessary to perform self-directed labor with the goal of producing exchangeable goods sufficient to meet one's needs. Henry George represents the quintessential vision of 19th century entrepreneurship, a vision that may well have been lost or diminished in the passage of the last century in America. However, to this vision is appended one final and telling condition, which George states in relation to his thesis about the development of machinery and its tendency to displace laborers. He writes:

When we consider that the object of work is to satisfy want, the idea that labor-saving invention can ever cause want by making work more productive seems preposterous.<sup>13</sup>

Contained in this passage is the kernel of an idea that remains a central article of faith implicit in the vision of George's entrepreneurial man. George cannot accept the thesis that automation, for example, can ever represent distress to the American populace, for to do so would be to surrender the fundamental confidence in the power of capitalism to release all the powers of man's ingenuity. In short, George sees the good of society as enhanced in the achievement of a condition of abundance for all accomplished through a *reduction* of work, a *saving* of labor. It is worth noting that this represents a sharp departure from the conception of man contained in non-liberal thinkers like Karl Marx, who believed that precisely through work man comes to realize the fulfillment of his or her powers, a process which allows one's talents to come forth and flourish.<sup>14</sup> Marx's theory is largely an invective against the tendency of all occupations to dehumanize and debilitate workers, draining their talents and energies.

But George has an implicit resolve that working *within* capitalism workers can create the conditions for their own employment and thereby release their talents and energies. Thus, George objects to the “habit ingrained in thought and speech of looking upon work as a boon.”<sup>15</sup> Unlike Marx, he regards competition as a virtue, and he regards the competition with foreign workers as ultimately a benefit to society since unfettered competition should bring about a greater abundance of goods at presumably cheaper prices. Even the worker benefits from such price-reductions, since one has to expend less of his or her labor to have the means to purchase such goods. When competition is limited and regulated, prices will not fall; and such limits and regulations are always imposed by the holders of privilege whenever we allow the wielders of capital to have undue control over the management of land and resources (a condition of *restrained* competition).

True, he would concede that even a condition of more perfect competition might sometimes mean the loss of one’s immediate occupation, but with the greater development of land and resources made possible through George’s programs, there will be no want of other means to employ one’s labor (and probably do so more fruitfully) with an ever-expanding realization of one’s own powers of initiative and ingenuity.

## VI

### **Some Criticisms of George’s Theory**

WE HAVE LOOKED at George’s theory of value rather uncritically and even sympathetically to this point, but it is plain to see that many of the standard objections to the labor theory of value do apply with some force.

Moreover, there are numerous objections that are specific to George’s theory alone. For example, it is hard to see how he can maintain the thesis of the determination of value by means of equal expenditures of labor in every exchange<sup>16</sup> (even with the qualification of a renewed emphasis of the limiting condition of land access) without ever specifying how quantities of labor are to be measured and balanced against the even greater intangibles of the access to the development of land and resources.

One might also wonder about the impact of advanced technology on these assessments of value. However, it is well worth noting in George’s defense that modern utility theories of value are far from immune to objections all of their own. What is too often overlooked in the computer printouts of modern economic theory is that these suppositions of value contain significant presuppositions about justice in distribution—something that George was acutely sensitive to in his own work—and when a theory of value spells out conditions of demand

for products like hula-hoops, pet rocks and cabbage patch dolls while some regions of the country have too few doctors and inadequate health care, that tells us that something is awry in our system of *values*. Those values often do proceed from our economic theories of value and, if so, there is more than enough room for a hard look at what we believe is the source of value and why we believe it.

George's is an entrancing vision. It is, as all such visions are, one founded in the hope and promise of a better world. George would undoubtedly object to the characterization of his theories as "utopian," for he puts forth a detailed program of tax reform as a practical means to accomplish his ends, but utopian it is in the best sense of the word.

Times have changed; one may worry that they have changed so dramatically since the turn of the century that such programs remain out of our reach, but to assume such an attitude is to capitulate to the sort of impotence that allows the abuses of the present system to perpetuate themselves. Democratic theory has always been the expression of an ideal that we only can hope to attain imperfectly. But the abandonment of the ideal represents a surrender of the quest for the good society. George, let it be remembered, presented his economic theory as an extension of the democratic vision.

### Notes

1. Henry George, *Protection or Free Trade*. (New York: Robert Schalkenbach Foundation, 1980), p. 196. George writes: "Though the question of wages is primarily a question of the distribution of wealth, no protectionist writer that I know of ventures to treat it as such, and free traders generally stop where protectionists stop, arguing that protection must diminish the production of wealth, and (so far as they treat the matter of wages) from this inferring that protection must reduce wages."

Later, George writes [p. 263]: "And, let me repeat it, this increased inequality in distribution does not mean that the mass of those who have nothing but the power to labor do not proportionately share in the increase in wealth. It means that their condition must become absolutely, as well as relatively, worse."

2. *Ibid.*, p. 243.

3. *Ibid.*, p. 243.

4. *Ibid.*, p. 327.

5. *Ibid.*, p. 21.

6. *Ibid.*, p. 22.

7. George, *Progress and Poverty*, *op. cit.*, p. 195.

8. *Ibid.*, p. 81.

9. On this point, see Charles Dyke, *Philosophy of Economics*, (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1981), esp. pp. 24–25.

10. *Ibid.*, p. 26.

11. George, *Protection or Free Trade*, *op. cit.*, p. 31.

12. Dyke, *Philosophy of Economics*, *op. cit.*, p. 29.

13. *Ibid.*, p. 265.

14. Consider this passage from *Capital*, Vol. I (New York: International Publishers, 1967), p. 177: "He (*i.e.* man) opposes himself to Nature as one of her own forces, setting in motion arms and legs, head and hands, the natural forces of his body, in order to appropriate Nature's productions in a form adapted to his own wants. By thus acting on the external world and changing it, he at the same time changes his own nature. He develops his slumbering powers and compels them to act in obedience to his sway."

15. George, *Protection or Free Trade*, *op. cit.*, p. 244.

16. George, of course, had a reproduction cost theory of value. "It is never the amount of labor that has been exerted in bringing a thing into being that determines its value, but always the amount of labor that will be rendered in exchange for it," he wrote in *The Science of Political Economy* (New York: Robert Schalkenbach Foundation, 1981, p. 253). "Nevertheless, we properly speak of the value of certain things as being determined by the cost of production. But the cost of production that we thus refer to is not the expenditure of labor that has taken place in producing the identical thing, but the expenditure of labor that would now be required to produce a similar thing—not what the thing itself has cost, but what such a thing would now cost."

### ***Taiwan Development***

ECONOMIC GROWTH is sought in Taiwan through education and research. One means towards this end is the provision of a lecture series under the aegis of the Tamkang Chair Lecture Series of Tamkang University of Taipei. This is explained by Clement C. P. Chang, the University president in the Preface of the Tamkang University Press 1988 Series publication #75, *Energy, Income and Quality of Life Management in U.S.A., An Information Systems Approach to Decision Analysis*, by Ben-chieh Liu, Ph.D.

Dr. Liu, Professor of Management and Information Systems at Chicago State University and President of Liu Associates, Inc., of Lisle, Illinois, brought a broad background in consulting both in the United States and abroad to the lectures. He set forth carefully the methodological problems in studying and attempting to quantify so intractable a matter as "quality of life." He then presented a vast amount of data and reproduced and updated studies he did for this complex variable in the U.S. for the years 1960, 1970, and 1978. Dr. Liu stated, "the entirety of this integrated MIS approach . . . was only fully presented and discussed in the . . . Series." (p.ii-iii).

The scope of factors included in QOL is extremely broad in this careful study and embraces social, economic, political, environmental, and health and education indicators. "One of the most needed features of the social sciences to date seems to be some generally acceptable, condensed set of information system by which various quality of life indicators and the underlying social welfare functions can be empirically developed, tested, and estimated for making better management decisions." (p.7-9). The author has gone a very long way toward meeting this need.

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