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Henry George and Austrian economics

Leland B. Yeager

Henry George has been widely pigeonholed and dismissed as a single-taxer. Actually, he was a profound and original economist. He independently arrived at several of the most characteristic insights of the 'Austrian' School, which is enjoying a revival nowadays. Yet George scorned the Austrians of his time, and their present-day successors show scant appreciation of his work. An apparent lapse in intellectual communication calls for repair.

Austrian Economics

The Austrian School traces to the work of Carl Menger, one of the leaders of the marginal-utility revolution of the 1870s, and his fellow-countrymen, Eugen von Böhm-Bawerk and Friedrich von Wieser. Notable contributors of a later generation include Ludwig von Mises, F. A. Hayek, and Ludwig Lachmann, each of whom worked first in Austria or Germany and later in the United States, and also the American Frank A. Fetter. In a still later generation, eminent Austrians—the word no longer carries any implications about nationality or mother tongue—include Murray Rothbard and Israel Kirzner. Some eminent young members of the school are Dominick Armentano, Gerald O'Driscoll, Mario Rizzo, Steven Littlechild, and Karen Vaughn; and apologies are in order for not extending the list further.[1]

What follows is an impression of the leading characteristics of Austrian economics.

(i) Austrians are concerned with the big picture—with how a whole economic system functions. They avoid tunnel vision; they do not focus too narrowly on the administration of the individual business firm and the individual household. They investigate how the specialized activities of millions of persons, who are making their decisions in a decentralized manner, can be coordinated. These diverse activities are interdependent;

Correspondence may be addressed to Professor Leland B. Yeager, Dept. of Economics, University of Virginia, Charlottesville VA 22901.

1. Since this article chiefly concerns Henry George, I am assuming that the reader has enough acquaintance with contemporary Austrian economics to make detailed citations unnecessary. In addition to the specifically cited works of Menger, Böhm-Bawerk, von Mises, Hayek, and Rothbard, he might well consult, for orientation, books written or edited by Dolan, Moss, O'Driscoll, and Spadaro; see the bibliography.

yet no particular agency takes charge of coordinating them, and none would be competent to do so. The relevant knowledge—about resources, technology, human wants, and market conditions—is inevitably fragmented among millions, even billions, of separate human minds.

(ii) Austrians take interest in how alternative sets of institutions can function. Von Mises in particular, and later Hayek, demonstrated the impossibility of economic calculation—scheduling of economic activities in accordance with accurate assessment of values and costs—under socialism. Centralized mobilization of knowledge and planning of activities is admittedly conceivable. In a Swiss Family Robinson setting, the head of the family could survey the available resources and technology and the capabilities and needs and wants of family members and could sensibly decide on and monitor production and consumption in some detail. In a large, modern economy, however, sensible central direction is not possible. Austrians are alert to possibilities of unplanned order and to what Hayek (1967) has called "the results of human action but not of human design." They investigate how the market and prices function as a vast communications system and computer, transmitting information and incentives and so putting to use scattered knowledge that would otherwise necessarily go to waste.

(iii) Not only do Austrians appreciate the implications of incomplete, imperfect, and scattered knowledge; they also appreciate the implications of change, uncertainty, and unpredictability in human affairs. They take these facts of reality seriously not only in confronting supposed theoretical and econometric models of the economy but also in assessing alternative sets of institutions and lines of policy.

(iv) In connection with the implications of fragmented knowledge, change, and unpredictability, Austrians pay attention to disequilibrium, process, and entrepreneurship. While not totally scornful of elaborate analysis of the properties of imaginary equilibrium states and of comparative-static analysis, they recognize how incomplete a contribution such analyses can make to the understanding of how economic systems function. They do not suppose, for example, that cost curves and demand curves are somehow 'given' to business decisionmakers. On the contrary, one of the services of the competitive process is to press for discovery of ways to get the costs curves down—if one adopts such terminology at all. Austrians tend to accept the concept of X-efficiency[2] and to appreciate the role of competition in promoting it. Far from being an ideal state of affairs with which the real world is to be compared—unfavorably—competition is seen as a process. Entrepreneurs play key roles in that process; they are

2. See, in particular, Leibenstein 1976. (Leibenstein himself, however, is not usually considered an Austrian.)

men and women alert to opportunities of advantageously undertaking new activities or adopting new methods.

(v) As already implied, Austrians have certain methodological predilections. They are unhappy with the tacit view of economic activity as the resultant of interplay among objective conditions and impersonal forces. They are unhappy with theorizing in terms of aggregates and averages (real GNP, the price level, and the like). They take pains to trace their analyses back to the perceptions, decisions, and actions of individual persons: methodological individualism is a key aspect of their approach. Austrians recognize introspection as one legitimate source of the facts underpinning economic theory. They emphasize subjectivism: not only do personal tastes help determine the course of economic activity, but even the objective facts of resources and technology operate only as they are filtered through the perceptions and evaluations of individuals. Insofar as Austrians recognize macroeconomics as a legitimate topic at all, they are concerned to provide it with microeconomic underpinnings.

(vi) Although Austrians like to think of their economics as value-free and although some of them, at least, emphasize that it is not logically linked with any particular policy position, Austrian insights into positive economics, coupled with plausible value judgments of a humanitarian and individualistic nature, undeniably do tend toward a particular policy position—noninterventionistic, laissez-faire, libertarian. More about this later.

George's Independence

I shall try to show Henry George's affinities with the Austrians by citing passages from his writings. The demonstration proceeds from partial agreement on theoretical points to agreement on major questions. First, however, we should note George's misunderstanding of and even scorn for the Austrians of his time, suggesting that his Austrian-like insights were original with him.[3] George did not understand the marginal revolution in value theory that was getting under way in the last decades of his life. He regretted that "'the classical school' of political economy" seemed to have been abandoned:

> What has succeeded is usually denominated the Austrian school, for no other reason that I can discover than that "far kine have long horns." If it has any principles, I have been utterly unable to find them. The inquirer is usually referred to the incomprehensible works of Professor Alfred Marshall of Cambridge, England . . . ; to the ponderous works of Eugen V. Böhm-Bawerk, Professor of Political Economy,

3. One referee hypothesizes that George and some of the Austrians, including von Mises, were deriving inspiration in common from French liberals such as Bastiat and Dunoyer. Investigating that hypothesis must be left for another occasion—or for another researcher.

> first in Innsbruck and then at Vienna . . . ; . . . or to a lot of German works written by men he never heard of and whose names he cannot even pronounce.
>
> This pseudo-science gets its name from a foreign language, and uses for its terms words adapted from the German—words that have no place and no meaning in an English work. It is, indeed, admirably calculated to serve the purpose of those powerful interests dominant in the colleges . . . that must fear a simple and understandable political economy, and who vaguely wish to have the poor boys who are subjected to it by their professors rendered incapable of thought on economic subjects.[4]

Later, as quoted below, George complains about the "grotesque confusions" of the Austrian School.

The Austrians, for their part, have not adequately appreciated George. Böhm-Bawerk criticized the natural-fructification theory of interest presented in *Progress and poverty*, apparently unaware of the advance (discussed below) that George achieved in *The science of political economy*.[5] Among present-day Austrians, Murray Rothbard shows the greatest acquaintance with George's writings, or some of them. (For example, he recognizes George as a free-trader and applauds his "excellent discussion" of the distinction between patents and copyrights.) Yet Rothbard is mostly concerned with what he considers the unsatisfactory moral and economic arguments used in favor of the single tax.[6] With the Austrians as with other present-day economists, George's reputation does seem to suffer from his being pigeonholed as a propagandist for dubious reforms.

Value Theory: Subjectivism, Productivity, and Time

George held a kind of labor-in-exchange or exertion-saved theory of value, following Adam Smith, but not a Marxian labor-cost theory (SPE, pp. 212–56, 503). Still, he had some Austrian-like subjectivist insights:

> . . . the value of a thing in any time and place is the largest amount of exertion that any one will render in exchange for it; or to make the

4. *SPE*, p. 208. Citations are made to George's works by abbreviated titles. The abbreviations, in the same order as the titles in the bibliography, are *PPh*, *P&P*, *PFT*, *SPE*, and *SP*.

Referring in particular to confusion over the meaning of wealth, George complains that "the 'economic revolution' which has in the meanwhile displaced from their chairs the professors of the then orthodox political economy in order to give place to so-called 'Austrians,' or similar professors of 'economics,' ha[s] only made confusion worse confounded" (*SPE*, p. 121).

5. Böhm-Bawerk 1959, 1: 336–39, 366, 474.

6. Rothbard 1962, 1: 148–49, 152, 410, 442; 2: 512–13, 813–14, 888, 915, 930, 933, 944–45; Rothbard 1970, viii, 37, 57, 91–100, 200, 201, 204, 209, 210; Rothbard 1973, 33–35.

> estimate from the other side, . . . it is the smallest amount of exertion for which any one will part with it in exchange.
>
> Value is thus an expression which, when used in its proper economic sense of value in exchange, has no direct relation to any intrinsic quality of external things, but only to man's desires. Its essential element is subjective, not objective; that is to say, lying in the mind or will of man, and not lying in the nature of things external to the human will or mind. There is no material test for value. Whether a thing is valuable or not valuable, or what may be the degree of its value, we cannot really tell by its size or shape or color or smell, or any other material quality, except so far as such investigations may enable us to infer how other men may regard them. . . .
>
> Now this fact that the perception of value springs from a feeling of man, and has not at bottom any relation to the external world—a fact that has been much ignored in the teachings and expositions of accepted economists—is what lies at the bottom of the grotesque confusions which, under the name of the Austrian school of political economy, have within recent years so easily captured the teachings of pretty much all the universities and colleges in the English-speaking world [*SPE*, pp. 251–52.].

George goes on to say that the Austrians have drawn wrong inferences from

> the truth that value is not a quality of things but an affectation of the human mind toward things. . . .
>
> What is subjective is in itself incommunicable. A feeling so long as it remains merely a feeling can be known only to and can be measured only by him who feels it. It must come out in some way into the objective through action before any one else can appreciate or in any way measure it. . . .
>
> . . . what value determines is not how much a thing is desired, but how much any one is willing to give for it; not desire in itself, but . . . the desire to possess, accompanied by the ability and willingness to give in return.
>
> Thus it is that there is no measure of value among men save competition or the higgling of the market, a matter that might be worth the consideration of those amiable reformers who so lightly propose to abolish competition.
>
> 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 [*SPE*, pp. 252–53].

Actually, George and the Austrians were not as far apart as he thought when alleging "grotesque confusions." Admittedly, though, some present-day Austrians do invite misunderstanding by insisting that value in general, as well as the interest rate in particular, is *entirely* a subjective phenomenon, instead of being determined—as of course it is—by interaction between objective reality and subjective perceptions and appraisals.

The valid subjective element in George's doctrine also appears in his recognition that wealth can be produced not only (1) by physically shaping things and (2) by growing things but also (3) by *exchanging* things:

> this third mode of production consists in the utilization of a power or principle or tendency manifested only in man, and belonging to him by virtue of his peculiar gift of reason. . . .
>
> . . . it is by and through his disposition and power to exchange, in which man essentially differs from all other animals, that human advance goes on. . . . in itself exchange brings about a perceptible increase in the sum of wealth. . . . Each of the two parties to an exchange aims to get, and as a rule does get, something that is more valuable to him than what he gives—that is to say, that represents to him a greater power of labor to satisfy desire. Thus there is in the transaction an actual increase in the sum of wealth, an actual production of wealth. . . . Each party to the exchange gets in return for what costs it comparatively little labor what would cost it a great deal of labor to get by either of the other modes of production. Each gains by the act. . . . the joint wealth of both parties, the sum of the wealth of the world, is by the exchange itself increased [*SPE*, pp. 331–32].

George had some glimmerings of the marginalist and Austrian idea of *imputation*: the values and remunerations of the factors of production are imputed to them according to what they contribute to producing outputs valued by consumers. Labor, George explained, does not transmit value into whatever it is applied to. Instead, labor derives its wages from its productive contribution and from the value that consumers attribute to the output produced. This insight refuted the wages-fund doctrine (*P&P*, pp. 23, 50–70). Even labor employed on a project of long duration is effectively deriving its wages from the project's growth in value as it comes gradually closer to completion.

Some authorities credit George with contributing to development of the marginal-productivity theory of functional income distribution.[7] Even John Bates Clark recognized his contribution:

> It was the claim advanced by Mr. Henry George, that wages are fixed by the product which a man can create by tilling rentless land, that first led me to seek a method by which the product of labor every-

7. Charles Collier, pp. 223–26, and Aaron Fuller, pp. 298–300, both in Andelson 1979.

> where may be disentangled from the product of coöperating agents and separately identified; and it was this quest which led to the attainment of the law that is here presented, according to which the wages of all labor tend, under perfectly free competition, to equal the product that is separately attributable to the labor. The product of the 'final unit' of labor is the same as that of every unit, separately considered; and if normal tendencies could work in perfection, it would be true not only of each unit, but of the working force as a whole, that its product and its pay are identical [1899, p. viii].

George did not see how his marginal-productivity theory of the wages of labor applied in a similar way to all factor remunerations (Collier in Andelson 1979, p. 228). Neither did the early Austrians; it was left to Wicksteed to make that contribution in 1894.

Regarding land rent, George was avowedly a follower of Ricardo (*P&P*, pp. 165–72). His conceptions of capital and its productivity were incomplete. He had a fructification theory of interest, centering around a supposed "reproductive or vital force of nature," illustrated by the growth of crops, the reproduction of animals, and the maturing of wine in storage (*P&P*, esp. pp. 179–82).

He did share insights with the Austrians, however, on the vital role of time in the productive process. He devotes a whole chapter of *SPE* to this topic:

> if I go to a builder and say to him, "In what time and at what price will you build me such and such a house?" he would, after thinking, name a time, and a price based on it. This specification of time would be essential. . . . This I would soon find if, not quarreling with the price, I ask him largely to lessen the time . . . I might get the builder somewhat to lessen the time . . .; but only by greatly increasing the price, until finally a point would be reached where he would not consent to build the house in less time no matter at what price. He would say [that the house just could not be built any faster]. . . .
>
> The importance . . . of this principle that all production of wealth requires time as well as labor we shall see later on; but the principle that time is a necessary element in all production we must take into account from the very first [*SPE*, pp. 369–70].

The implication, which practically cries out to be made explicit, is that output is not even ultimately attributable to labor (and land) alone; the tying up of wealth over time is also necessary. Since this service is both productive and scarce—since it is demanded and is limited in supply—one can hardly expect it to be free. In short, George was on the right track in capital and interest theory; but his achievement was incomplete.

Money

George and the Austrians shared insights even on such relatively specific topics as money and the analogy that money and language bear to each other. They were not simply agreeing with everyone else that both are useful social institutions. They recognized both, in Hayek's words, as "results of human action but not of human design." (That insight may be familiar nowadays, but it was not so when George and Menger and even when Hayek were developing it.) Instead of being deliberately invented and instituted, money evolved spontaneously. George explains that it evolved from the most readily exchangeable commodities, which individuals employed in indirect barter because doing so afforded them economies in conducting their transactions. The medium of exchange naturally drifted into being also used as the measure of value or unit of account.

George anticipated the analogy more recently developed by Hayek and others:

> While the use of money is almost as universal as the use of languages, and it everywhere follows general laws as does the use of languages, yet as we find language differing in time and place, so do we find money differing. In fact, as we shall see, money is in one of its functions a kind of language—the language of value [*SPE*, p. 494].

George anticipated, in at least a rudimentary way, the cash-balance approach to monetary theory later developed independently by von Mises (1981 [1912]) and others. The demand for cash balances is accounted for by the services that they render to their holders (George presents examples in *SPE*, pp. 484–87). The development of credit promotes economics in the holding and transfer of the actual medium of exchange. "Money's most important use to-day is as a measure of value."[8]

Knowledge, Coordination, and Unplanned Order

So far this study has reviewed points on which George shared or anticipated Austrian insights only incompletely. Now it turns to some major points of agreement.

He and the Austrians agree that a central task of economics is to explain how specialized human activities may be coordinated without deliberate direction. First he distinguishes two kinds of cooperation, each of which increases productive power. One kind is the combination of effort, illustrated by men joining forces to remove a rock or lift a log too heavy for

8. The quotation is taken from a subheading in *SPE*, p. 504. The insight expressed there brings to mind present-day proposals for achieving monetary reform and macroeconomic stability by defining a stable measure of value distinct from the medium of exchange, with the choice and the supply of the latter being left to unregulated private enterprise. Describing such proposals, however, would carry us too far from our present topic.

any one to move alone. The other is the separation of effort—the division of labor, specialization. Next George distinguishes two ways of arranging cooperation itself. The first is conscious direction by a controlling will, illustrated (ideally) by the deployment of an army.

The second way, achieving "spontaneous or unconscious coöperation," draws George's chief attention. One example, reminiscent of Bastiat's essay, 'Natural and artificial social order' (1964, 1–19), is

> The providing of a great city with all the manifold things which are constantly needed by its inhabitants. . . . This kind of coöperation is far wider, far finer, far more strongly and delicately organized, than the kind of coöperation involved in the movements of an army, yet it is brought about not by subordination to the direction of one conscious will, which knows the general result at which it aims; but by the correlation of actions originating in many independent wills, each aiming at its own small purpose without care for or thought of the general result [*SPE*, p. 383].

As further examples of the two kinds of coordination, George offered, respectively, the sailing (arrangement of sails and so forth) and the construction and equipping of a large ship. He elaborated on the latter example in rather poetic passages:

> Consider the timbers, the planks, the spars; the iron and steel of various kinds and forms; the copper, the brass, the bolts, screws, spikes, chains; the ropes, of steel and hemp and cotton; the canvas of various textures; the blocks and winches and windlasses; the pumps, the boats, the sextants, the chronometers, the spy-glasses and patent logs, the barometers and thermometers, charts, nautical almanacs, rockets and colored lights; food, clothing, tools, medicines and furniture, and all the various things, which it would be tiresome fully to specify, that go to the construction and furnishing of a first-class sailing ship of modern type, to say nothing of the still greater complexity of the first-class steamer. Directed coöperation never did, and I do not think in the nature of things it ever could, make and assemble such a variety of products, involving as many of them do the use of costly machinery and consummate skill, and the existence of subsidiary products and processes [*SPE*, p. 389].

When he receives an order for such a ship, the builder does not send men out with detailed instructions for doing all the necessary work—cutting various woods, mining and refining various metals, planting hemp and cotton and breeding silkworms:

> Nor does he attempt to direct the manifold operations by which these raw materials are to be brought into the required forms and combi-

> nations, and assembled in the place where the ship is to be built. Such a task would transcend the wisdom and power of a Solomon. What he does is to avail himself of the resources of a high civilization, for without that he would be helpless, and to make use for his purpose of the unconscious coöperation by which without his direction, or any general direction, the efforts of many men, working in many different places and in occupations which cover almost the whole field of a minutely diversified industry, each animated solely by the effort to obtain the satisfaction of his personal desires in what to him is the easiest way, have brought together the materials and productions needed for the putting together of such a ship [*SPE*, pp. 389–90].

Deploying insights later also achieved by F. A. Hayek (1945), George goes on to speak of the mobilization of knowledge that is inevitably dispersed and that simply could not be centralized and put to use by a single mind or a single organization:

> So far from any lifetime sufficing to acquire, or any single brain being able to hold, the varied knowledge that goes to the building and equipping of a modern sailing-ship, already becoming antiquated by the still more complex steamer, I doubt if the best-informed man on such subjects, even though he took a twelvemonth to study up, could give even the names of the various separate divisions of labor involved.
>
> A modern ship, like a modern railway, is a product of modern civilization . . . ; of that unconscious coöperation which does not come by personal direction . . . but grows . . . by the relation of the efforts of individuals, each seeking the satisfaction of individual desires. A mere master of men, though he might command the services of millions, could not make such a ship unless in a civilization prepared for it [*SPE*, pp. 390–91].

The cooperation required for sailing a ship is relatively simple. The kind required for building one is beyond the power of conscious direction to order or improve. "The only thing that conscious direction can do to aid it is to let it alone; to give it freedom to grow, leaving men free to seek the gratification of their own desires in ways that to them seem best" (*SPE*, p. 391).

George has more to say on the spontaneous mobilization of dispersed knowledge. Physical force can be aggregated, but not intelligence:

> Two men cannot see twice as far as one man, nor a hundred thousand determine one hundred thousand times as well. . . . No one ever said, "In a multitude of generals there is victory." On the contrary, the adage is, "One poor general is better than two good ones" [*SPE*, p. 392].

In spontaneous cooperation, however,

> what is utilized in production is not merely the sum of the physical power of the units, but the sum of their intelligence.
>
> . . . while in the second kind of coöperation the sum of intelligence utilized is that of the whole of the coöperating units, in the first kind of coöperation it is only that of a very small part.
>
> In other words it is only in independent action that the full powers of the man may be utilized. The subordination of one human will to another human will, while it may in certain ways secure unity of action, must always where intelligence is needed, involve loss of productive power [*SPE*, pp. 392–93].

George understands the roles of exchange, markets, prices, and money in accomplishing spontaneous coordination; and he is skeptical (*SPE*, pp. 445–46) that government regulation of prices and wages and interest rates can achieve its intended purposes:

> Exchange is the great agency by which . . . the spontaneous or unconscious coöperation of men in the production of wealth is brought about and economic units are welded into that social organism which is the Greater Leviathan. To this economic body, this Greater Leviathan, into which it builds the economic units, it is what the nerves or perhaps the ganglions are to the individual body. Or, to make use of another illustration, it is to our material desires and powers of satisfying them what the switchboard of a telegraph or telephone or other electric system is to that system, a means by which exertion of one kind in one place may be transmitted into satisfaction of another kind in another place, and thus the efforts of individual units be conjoined and correlated so as to yield satisfactions in most useful place and form, and to an amount exceeding what otherwise would be possible [*SPE*, pp. 399–400].

Socialism

George rejects socialism, understood as collective or state management of all means of production (*SPE*, p. 198), on the grounds that it would restrict the scope of spontaneous coordination. Attempting conscious coordination of work requiring spontaneous coordination

> is like asking the carpenter who can build a chicken-house to build a chicken also.
>
> This is the fatal defect of all forms of socialism—the reason of the fact, which all observation shows, that any attempt to carry conscious regulation and direction beyond the narrow sphere of social life in which it is necessary, inevitably works injury, hindering even what it is intended to help.

> And the rationale of this great fact may . . . be perceived when we consider that the originating element in all production is thought or intelligence, the spiritual not the material. This spiritual element, this intelligence or thought power as it appears in man, cannot be combined or fused as can material force [*SPE*, pp. 391–92].

The last sentences quoted remind us of the emphasis of present-day Austrians on the creative role of entrepreneurship. They also remind us of Julian Simon's emphasis, in a recent book, on *The ultimate resource*—human intelligence and ingenuity.

To develop his points further, George asks us to imagine that "the very wisest and best of men were selected" to direct a socialist economy. Consider

> the task that would be put upon them in the ordering of the when, where, how and by whom that would be involved in the intelligent direction and supervision of the almost infinitely complex and constantly changing relations and adjustments involved in such division of labor as goes on in a civilized community. The task transcends the power of human intelligence at its very highest. It is evidently as much beyond the ability of conscious direction as the correlation of the processes that maintain the human body in health and vigor is beyond it. [The human body functions without being consciously directed by the mind.] . . .
>
> And so it is the spontaneous, unconscious coöperation of individuals which, going on in the industrial body, . . . conjoins individual efforts in the production of wealth, to the enormous increase in productive power, and distributes the product among the units of which it is composed. It is the nature and laws of such coöperation that it is the primary province of political economy to ascertain [*SPE*, pp. 394–96].

These passages remind us again of Hayek's conception of the chief task of economics and of his and von Mises's analyses of why accurate economic calculation would be impossible under full-fledged socialism.[9]

Methodology

George's views on methodology are remarkably similar to those of Carl Menger and of the modern Austrians.[10] George and Menger agree that the

9. For other comments by George on socialism, though earlier and less insightful ones, see his *PFT*, pp. 320–34. Although an emphatic opponent of socialism, George did advocate not only public schools but also government ownership of what he conceived to be natural monopolies. In these he included railroads, the telegraph and telephone, and urban systems of water, gas, heat, and electricity. *SP*, p. 198 and nearby pages.

10. George's remarks on the topic occur mostly in *SPE*, with a chapter in *PFT* and scattered observations in *P&P*. Menger 1950 develops views of 1883. An earlier discussion, with more detailed citations, appears in Yeager 1954.

economist's job is not merely to catalogue economic phenomena, but to search for cause-and-effect relations among them, to formulate laws expressing dependable coexistences and sequences, and to discover uniformities underlying superficial diversities.

Perhaps the leading methodological tenet of both men is that these elementary uniformities cannot be found solely in panoramic study of the economic system as a whole. They must be sought by penetrating to the level where decisions are actually made, the level of the individual person, family, firm, and agency. This approach, recommended by today's Austrians as *methodological individualism*, recognizes the legitimacy and necessity of appealing to purpose and motive. The relevant facts include not only the objective characteristics of resources and activities and products but also the characteristics attributed to them by fallible human beings, as well as human preferences and intentions. Again the subjectivism of George and the Austrians comes to the fore. Both recognize that economics does, after all, concern human action (and these two words form the title of von Mises' magnum opus).

George asserts a basic principle that people seek to satisfy their desires with the least possible exertion, and Menger expresses similar ideas. This is not an assumption that people behave like the economic man of the familiar caricature or that they act only on selfish motives.[11]

George and Menger, as well as von Mises and other later Austrians, help clarify the nature of so-called armchair theorizing. Economists can discover basic facts by observation of their own and other people's decisionmaking. They even have the advantage of being able to observe the basic elements of their theoretical generalizations (human individuals and their strivings) directly, while the natural scientists must postulate or infer their basic but not directly observable elements from whatever phenomena they can observe directly. Much as geometers deduce many theorems from a few axioms, so economists deduce a powerful body of theory from a relatively few empirical generalizations, ones so crushingly obvious that their failure to hold true is almost inconceivable in the world as we know it. The axioms underpinning economic theory include ones like George's least-exertion principle and the fact that labor continued beyond some point becomes irksome (as well as others that could be added to George's list, such as the fact of scarcity itself and the principle of eventually diminishing marginal returns). (The banality of empirical observations is not related inversely to the scope and importance of their implications in economics; indeed, one might argue that a direct relation is the more plausible.) Armchair theorizing need not be the mere sterile juggling of arbitrary assumptions; it can have a sound empirical basis.

11. See *SPE*, esp. pp. 91, 99. In this respect George anticipated Wicksteed 1933, esp. ch. 5.

George considers how economists can disentangle the complex intermingling of many causes and many effects that occurs in the real world. He explains the method of "mental or imaginative experiment," the method of testing "the working of known principles by mentally separating, combining or eliminating conditions" (*SPE*, p. 100; *PFT*, pp. 27–29).

George and Menger share a skeptical attitude toward the 'organic' conception of society. Both recognize how an economic system seems to have a life and purpose and orderliness of its own, as if it had been shaped and were operating by deliberate design. Yet they do not join the holists and institutionalists in supposing that this apparent organic unity requires concentrating research on the system's overall institutional arrangements and supposed evolutionary trends. Instead of taking the coherence and order of a market economy for granted, they regard these as among the chief phenomena crying out for explanation. Both employ methodological individualism in developing their explanations.

George and Menger offer the same two examples of how features of the system as a whole can arise, without being deliberately contrived, from the efforts of individuals to gratify their separate desires: (1) money evolves from the most marketable of commodities under barter; (2) new communities grow and their economic activities evolve into the appearance of a rational pattern, even though settlers move in and take up particular occupations only with a view to satisfying their separate desires.

George and Menger—to summarize—conceive of economic theory as a body of deductions from a few compellingly strong empirical generalizations. They employ methodological individualism because they realize that economists' 'inside' understanding of human purposes and decisions is a leading source of empirical axioms. (Not sharing George's and Menger's understanding of how empirical content can enter into armchair theory, many economists of our own day apparently regard theoretical and empirical work as two distinct fields, with adverse consequences for both.)

Social Philosophy

A final affinity between George and the modern Austrians concerns social or political philosophy. Austrian economists tend to be libertarians (although several of them insist that there is no *necessary* connection). Many libertarians—to look at the relation the other way around—tend to regard Austrianism as their own 'house brand' of economics. This is unfortunate.[12]

12. Economics is a tool for understanding and possibly reshaping the world—for trying to make one's deepest values prevail, whatever they may be. Everyone, therefore, has an interest in getting his economics straight. The truths of economics, as of any other field of objective research, once discovered, will be the same for everyone. There is no one truth for libertarians, another for collectivists, and so on. Of course, both George and the Austrians have much to contribute toward getting economics straight; and the capacity to con-

Anyway, the ideological affinity between George and the Austrians remains a fact. As C. Lowell Harriss says:

> George could probably have considered himself a libertarian had the term been current in his day. . . . And such twentieth-century libertarian champions as Albert Jay Nock and Frank Chodorov professed themselves outright Georgists. It was Nock, in fact, who acclaimed George "the philosopher of freedom," "the exponent of individualism as against Statism," "the very best friend the capitalist ever had," and "the architect of a society based on voluntary cooperation rather than on enforced cooperation."[13]

George rejected socialism not only out of concern for economic efficiency but also (anticipating Hayek 1944) out of concern for human freedom:

> The proposal which socialism makes is that the collectivity or state shall assume the management of all means of production, including land, capital and man himself; do away with all competition, and convert mankind into two classes, the directors, taking their orders from government and acting by governmental authority, and the workers, for whom everything shall be provided, including the directors themselves. . . . It is more destitute of any central and guiding principle than any philosophy I know of. . . . It has no system of individual rights whereby it can define the extent to which the individual is entitled to liberty or to which the state may go in restraining it [*SPE*, p. 198].

George, like many libertarian Austrians, champions the concept of natural rights or the rights of man.[14] He emphatically includes property rights. He was no redistributionist.

In a chapter entitled 'The rights of man,' he asserts:

> some facts [are] so obvious as to be beyond the necessity of argument. And one of these facts, attested by universal consciousness, is that there are rights as between man and man which existed before the formation of government, and which continue to exist in spite of the abuse of government; that there is a higher law than any human law—to wit, the law of the Creator, impressed upon and revealed

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tribute is not confined to any particular school. What is unfortunate is a belief in different house brands of truth. Ludwig von Mises (1949) was duly emphatic in attacking this notion, which he called 'polylogism.'

13. Harriss in Andelson 1979, p. 367 (citations omitted here). Harriss goes on to cite passages from *P&P*, pp. 434–36, that make George look like a supply-sider also, passages on the great release of productive energies to be expected if laborer and capitalist alike were allowed, through the abolition of taxes (other than the single tax), to reap the full reward of what they produce.

14. Besides the passages cited below, see Andelson in Andelson 1979, 386–87.

> through nature, which is before and above human laws, and upon conformity to which all human laws must depend for their validity. To deny this is to assert that there is no standard whatever by which the rightfulness or wrongfulness of laws and institutions can be measured; to assert that there can be no actions in themselves right and none in themselves wrong; to assert that an edict which commanded mothers to kill their children should receive the same respect as a law prohibiting infanticide.
>
> These natural rights, this higher law, form the only true and sure basis for social organization [*SP*, p. 92].

He denies any "real antagonism between the rights of men and the rights of property—since the right of property is but the expression of a fundamental right of man." He challenges those who imagine any conflict between human and property rights "to name any denial of the rights of men which is not or does not involve a denial of the rights of property; or any denial of the rights of property which is not or does not involve a denial of the rights of men" (*PPh*, pp. 209–10):

> This is not an accidental, but a necessary connection. The right of life and liberty—that is to say, the right of the man to himself—is not really one right and the right of property another right. They are two aspects of the same perception—the right of property being but another side, a differently stated expression, of the right of man to himself. The right of life and liberty, the right of the individual to himself, presupposes and involves the right of property, which is the exclusive right of the individual to the things his exertion has produced.
>
> This is the reason why we who really believe in the law of liberty, we who see in freedom the great solvent for all social evils, are the stanchest and most unflinching supporters of the rights of property, and would guard it as scrupulously in the case of the millionaire as in the case of the day-laborer [*PPh*, pp. 210–11].

> I have been an active, consistent and absolute free trader, and an opponent of all schemes that would limit the freedom of the individual. I have been a stancher denier of the assumption of the right of society to the possessions of each member, and a clearer and more resolute upholder of the rights of property than has Mr. Spencer. I have opposed every proposition to help the poor at the expense of the rich. I have always insisted that no man should be taxed because of his wealth, and that no matter how many millions a man might rightfully get, society should leave to him every penny of them.[15]

15. *PPh*, pp. 70–71. Herbert Spencer is the person referred to in the book's title and in the passage quoted.

This, and this alone, I contend for—that he who makes should have; that he who saves should enjoy. I ask in behalf of the poor nothing whatever that properly belongs to the rich. Instead of weakening and confusing the idea of property, I would surround it with stronger sanctions. Instead of lessening the incentive to the production of wealth, I would make it more powerful by making the reward more certain. Whatever any man has added to the general stock of wealth, or has received of the free will of him who did produce it, let that be his as against all the world—his to use or to give, to do with it whatever he may please, so long as such use does not interfere with the equal freedom of others. For my part, I would put no limit on acquisition. No matter how many millions any man can get by methods which do not involve the robbery of others—they are his: let him have them. I would not even ask him for charity, or have it dinned into his ears that it is his duty to help the poor. That is his own affair. Let him do as he pleases with his own, without restriction and without suggestion. If he gets without taking from others, and uses without hurting others, what he does with his wealth is his own business and his own responsibility [*SP*, pp. 86–87].

Schumpeter's Assessment

In conclusion I remind the reader, but without quoting the whole passage verbatim, of Joseph Schumpeter's assessment of Henry George. "He was a self-taught economist, but he *was* an economist." He acquired most of the economics taught in the universities of his time. He was at home in scientific economics up to and including Mill's *Principles*, although he did fail to understand Marshall and Böhm-Bawerk. Barring his single tax and the phraseology connected with it, he was an orthodox economist, conservative in method. Whatever else might be said about his panacea, it was not nonsense; and as a competent economist, "he was careful to frame his 'remedy' in such a manner as to cause the minimum injury to the efficiency of the private-enterprise economy." What George said about the economic benefits to be expected if it were possible (as Schumpeter doubted) to remove other taxes was even "obvious wisdom" (Schumpeter 1954, p. 865).

The present article lends support, I hope, to this assessment.

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