Progress and Poverty Today

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Introduction to New Abridged Edition of *Progress and Poverty*, 1997

As this book was written, the Industrial Revolution was transforming America and Europe at a breathless pace. In just a century, an economy that worked on wind, water, and muscular effort had become supercharged by steam, coal, and electricity. Canals, railroads, steamships and the telegraph were linking regional economies into a national and global network of exchange. The United States had stretched from coast to coast; the western frontier was evaporating.

American journalist and editor Henry George marveled at the stunning advance of technology, yet was alarmed by ominous trends. Why had not this unprecedented increase in productivity banished want and starvation from civilized countries, and lifted the working classes from poverty to prosperity? Instead, George saw that the division of labor, the widening of markets, and rapid urbanization had increased the dependence of the working poor upon forces beyond their control. The working poor were always, of course, the most vulnerable in depressions, and last to recover from them. Unemployment and pauperism had appeared in America, and indeed, were more prevalent in the developed East than in the aspiring West. It was "as though a great wedge were being forced, not underneath society, but through society. Those who are above the point of separation are elevated, but those who are below are crushed down." This, the "great enigma of our times," was the problem George set out to solve in *Progress and Poverty*.

Economists will recognize his analysis as a precursor to the modern marginal productivity theory of functional distribution. His story is framed in the language of what is today called classical political economy, though George was careful to avoid inconsistencies of definition and reasoning which, he showed, had led other economists astray.

A central feature of the British classical school was the classification of productive resources into three "factors of production" – labor, land, and capital. Most classical economists had conceived of these in terms of three great social classes (the workers, the landed aristocracy, and the capitalists). George, on the other hand, identified them as functional categories, distinguished by the conditions under which the factors are made available for production.

In a competitive economy, the earnings of the factors of production measure their separate contributions to the value of the product. Payments for the use of labor are called wages; payments for land are called rent; the income of capital is interest. In George's terms, the distress of the working classes had to do with a persistently low level of real wages. "Why," he asked, "in spite of increase in productive power, do wages tend to a minimum which will give but a bare living?"

The book proceeds systematically. First, George explores the prevailing scholarly and popular explanations, which relied principally on the famous population theory of Malthus, in combination with the "wage fund" theory of British political economy. Together these theories implied that the aggregate income of labor depends upon the amount of capital devoted to the payment of wages. An increase in wages required an increase in the amount of capital per worker. However, any rise in living standards above mere subsistence motivated workers to marry younger and bear more children, until population growth caused capital per worker – and, therefore, wages – to recede again. Moreover, population growth diminished agricultural productivity by forcing recourse to inferior soils. Technological advance and capital accumulation might afford a period of relative prosperity – but ultimately, increasing applications of labor to a fixed amount of land could raise output only at a diminishing rate. In short, immutable laws of nature – the population principle and the law of diminishing returns to land – were widely believed to explain the persistence of poverty.

To George, the Malthusian analysis was abhorrent: It asserted that no institutional reform could fundamentally alter the pattern of income distribution, and that charitable support for the needy only compounded the problem – by lowering death rates and raising birth rates. Fortunately, he found this theory of wages to be theoretically flawed on several grounds. He also found it to be incompatible with empirical facts, based on historical case studies from Ireland, China, India, the United States and elsewhere. Today, most development economists agree with George that famine and mass poverty have more to do with faulty human institutions than with the limitations of nature.

In his own analysis, George takes meticulous care to avoid inconsistencies of definition and reasoning. A keen observer of political and economic affairs, he builds his case slowly, probing toward the truth with Socratic innocence. So, we will not deprive the reader of the intended suspense by revealing George's conclusion at the outset. Instead, we will try to suggest why this book is still worth reading.

Public debate about economic policy revolves today, as it always has, around a tension between two fundamental social goals. Economists and policymakers lament a perennial "trade-off between efficiency and equity." Policies intended to promote savings and capital formation are held to widen inequality, while redistributive policies (such as progressive income taxation) erode incentives to produce and earn. The debates about welfare reform and health care policy are the most recent versions of this enduring social debate. And the trade-off is encountered far beyond the borders of the United States. Citizens of formerly communist countries wonder whether the efficiency gains of a market economy are worth the social costs. Developed as well as developing countries agonize over the problem of how to promote economic growth without also accelerating the degradation of the environment.

Most economists deem it their business to evaluate the efficiency of policy choices, but, claiming no special knowledge of ethics, they leave it to philosophers and the political process to evaluate questions of justice. Can it be true that society's arrangements to provide for common needs must always confront a divisive choice between equity and efficiency – between what is fair and what is feasible?

Henry George not only denied it; he asserted the reverse: Full recognition of economic rights and responsibilities would reveal the goals of equity and efficiency to be mutually reinforcing. Neither social justice nor a well-functioning free market system can long be enjoyed without the other. "The laws of the universe are harmonious," George proclaimed. His analysis showed that the root cause of widening inequality lies not in the laws of nature, but in social maladjustments which ignore them. Moreover, the breach of justice which underlies the problem of poverty is not merely incidental to economic development; it impedes development, leading to wider and wider inequality.

George emphasized that unequal distribution is itself wasteful of wealth. Unemployment and underemployment of labor mean that energy and intelligence go untapped. For those who find work, he said, high wages stimulate creativity, invention, and improvement, while low wages encourage carelessness. Inadequate education of the poor multiplies the loss. There are the damages done by poverty-related vice and crime, and the substantial costs of protecting society against them. There is the burden upon the wealthy of providing welfare support for the very poor – or risking social upheaval if they do not. Moreover, said George, social institutions by which some prosper at others' expense cause talent and resources to be diverted from productive enterprise to unproductive conflict, as individuals find that competing for political advantage can be more lucrative than competing for market success.

In short, an unjust system of privileges and entitlements tends to cause misallocation of resources, macroeconomic instability and stagnation, political corruption, and social conflict that ultimately may threaten whole civilizations.

George's central contribution was to show that the distinction between individual property and common property forms a rational basis for distinguishing the domain of public activity from that of the private. This distinction leads him to a theory of public finance that reconciles the competing insights of socialism and laissez-faire capitalism. By a simple fiscal device, the revenue arising from common property can be captured for the public treasury and applied to the common benefit, so that government may assume needed general functions without interfering with individual incentives. The benefits of sustained economic development would be widely shared. The limited resources of the earth would be managed for the benefit of all, including future generations. Government would become, not a repressive power, but "the administration of a great cooperative society. It would become merely the agency by which the common property was administered for the common benefit."

George's insights have wide application to modern problems. Both domestically and internationally, the distribution of wealth has grown more unequal. Europe, North America, and Japan have surged ahead while many poorer countries have stagnated or declined, many burdened by debt.

Modern fiscal and monetary policies have not resolved the problem of macroeconomic fluctuations. Yet a half century before Keynes, George outlined a theory of boom and bust which explained the underlying instability of the market economy under present fiscal institutions. The operation of a modern system of money and credit merely serves to intensify that instability. His theory is consistent with the circumstances of numerous episodes, recently including Japan's recession and halting recovery, and the savings and loan debacle in the United States.

Georgist (or "geoclassical") economic analysis bears directly upon the current difficulties of Russia and other nations emerging from communism, upon the international debt crisis, and upon the world-wide pressure on environmental and natural resources. It is relevant to the common experience of chronic budget deficits, both municipal and federal. It can be applied to the problems of corruption in government, and of the concentration of political power associated with concentration of wealth. It provides an ideal framework for the analysis of environmental pollution and the design of environmental policy. Indeed, readers will notice that the modern environmental movement in certain respects seems to be grappling toward a rediscovery of Georgist proposals.

Many American cities are plagued by the twin problems of urban decay and suburban sprawl. An expanding network of roads and highways carries commuters ever farther to their jobs. Fleeing the problems of the city, citizens build new homes in the quiet countryside only to find that traffic congestion, pollution, noise and urban social problems are flung outward with the movement of population. Sociologists decry the loss of community, while environmentalists warn of the potentially disastrous consequences of automobile pollution, habitat loss, deforestation and ecosystem disruption. Economists point to the billions of dollars worth of wasted physical and human capital left behind in the crumbling central cities – where the urban poor remain stranded to fend for themselves, with few jobs and, as municipal tax revenues shrink, declining public services. Yet several years before the automobile appeared, Henry George analyzed the dynamics of urban growth and decay. He explained the basic processes that yield an inappropriate geographic distribution of population, inefficient land use, and urban blight. Enlightened urban economists and transportation planners today advocate Georgist policy reforms at the municipal level.

Thus, George's synthesis informs a research program of remarkable breadth. Some writers understand Georgism to constitute a distinct paradigm of political economy, one which reconciles the contradictions between the two competing paradigms dominant in the world today – the mainstream neoclassical school, which tends to focus on the impressive efficiency properties of free markets, and Marxist socialism. Other Georgist writers believe that Georgism can and should be explained in the modern language of neoclassical economics. What is certain is that geoclassical thought bears crucially on some of the foremost controversies in America and the world today.

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