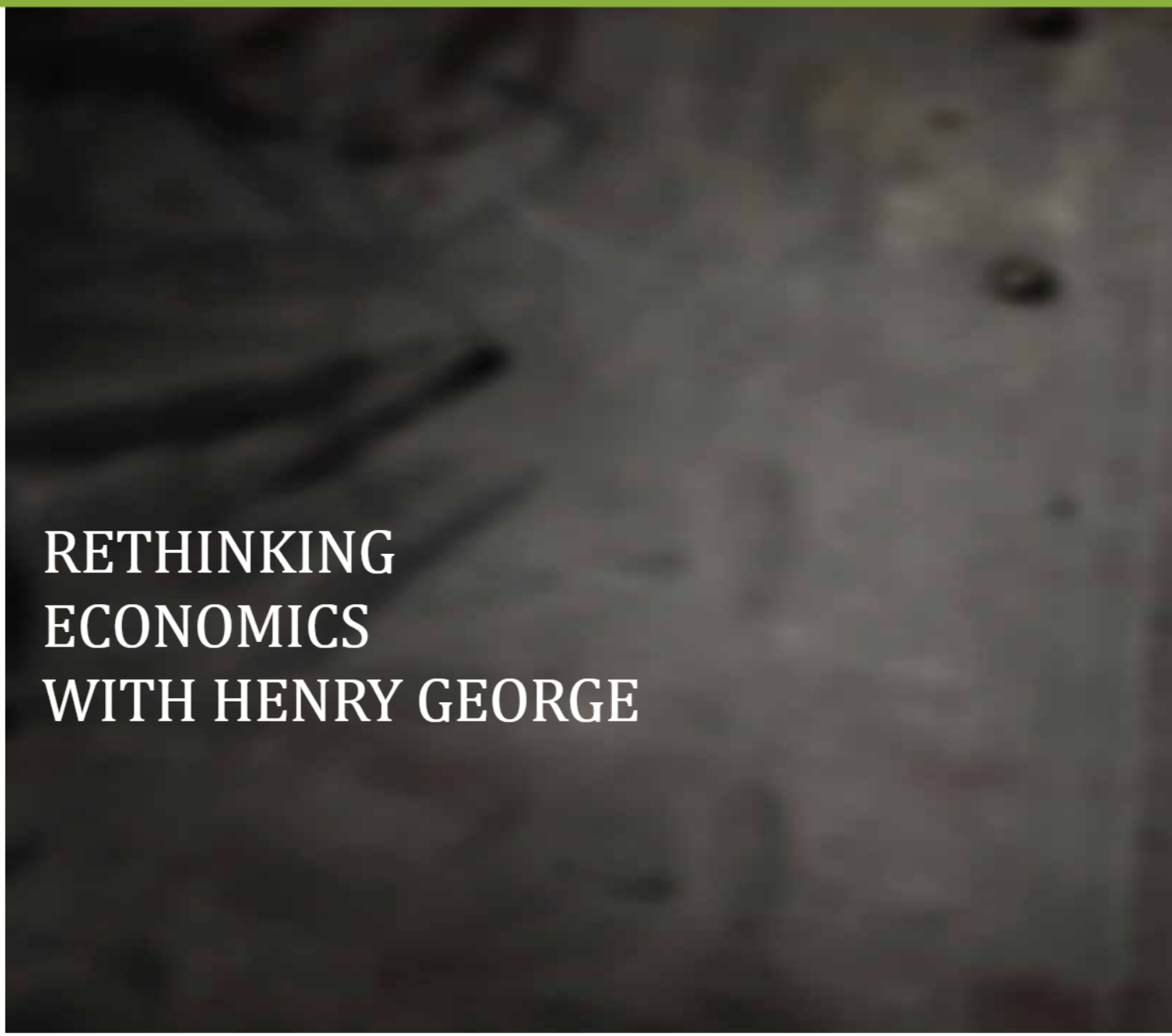

RETHINKING ECONOMICS WITH HENRY GEORGE

As the world faces environmental and economic crises, the new thinking that Henry George brought to economics remains important to the peace and prosperity of the world, but as he foresaw in his most widely read book, and is inscribed on his gravestone: *The truth that I have tried to make clear will not find easy acceptance. If that could be, it would have been accepted long ago. If that could be, it would never have been obscured.* As George found, thinking and rethinking were, and remain, both opportunities and threats!

ECONOMICS AND THE SCIENCE OF POLITICAL ECONOMY

When economics first became a subject for special study, i.e. in the eighteenth century with the Physiocrats in France and Adam Smith in Britain, it was styled Political Economy and, as the title of Adam Smith's most famous work *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776) indicates, the approach was essentially scientific. It sought to discover the natural laws that govern the production and distribution of wealth throughout a sovereign state.

Thus the term '*Economics*' refers to a branch of knowledge and whilst acquiring knowledge involves thinking, it needs first to be based on evidence gleaned from careful observation, clear perception and relevant experience. Likewise with any necessary rethinking of economics, the need for which is now clear to almost everyone except those most determined to ignore the ethical issues lying at the centre of the troubles that now confront us.

Apart from the perils associated with ego and ownership, most early scientific inquiry was able to proceed without bias or concern that the results of such inquiries might offend powerful vested interests. The most notable exception is probably the case of the astronomer and mathematician, Galileo whose work showed how the movements of celestial bodies were governed by laws of nature. This offended the most powerful interests of his day causing him to suffer severe ecclesiastical censure and punishment. Evidence of the enduring power of censorship to influence thinking is that the scientific community had to wait 350 years before the censoring authority - the Roman Catholic

Church, was prepared to validate Galileo's work.

Whilst the Galileo case was exceptional the science of political economy has, from its beginning, been a science in which those studying or promoting the study of it are subject to the most insidious risk to their thinking because they may have a pecuniary interest in its findings. Thus economics, as a science, demands the highest possible level of probity. Professional economic thinkers and their paymasters are participants in the subject they study. They are, as citizens, intimately involved in the acquisition, transfer, and consumption of wealth and suffer the risk, along with others, of failing to distinguish between the acquisition of wealth and the production of wealth. This problem has increased as *economics* has become increasingly associated with business and financial studies where the interests of an individual business, firm, industry or sector of the economy is the primary focus rather than the wellbeing of the state of which that component is but a part.

NATURAL LAWS AND MAN-MADE REGULATION

Professional engineers are obliged to acknowledge and work in harmony with a number of laws, regulations and requirements when they seek to design and build a structure for a client. The most important laws are those that nature ordains such as pertain to the materials and forces they will employ in making the structure. Regulations will include those prescribed by the government and local authorities within whose domain the structure will be built and the requirements will generally be dictated by the will and preferences of their client. Nothing that the client or any public authority may require can however enable the engineer to build a structure that is not designed and built in harmony with the relevant laws of nature e.g. the law of gravity. The engineer's first duty therefore is to understand these natural laws in order to advise government and clients regarding what is possible and what is not possible. The laws of nature do not change though the application of the same law may vary with changing conditions. Hence, whilst the law of gravity applies (as far we know) everywhere its effects on man made arrangements

on planet earth, for example are different from those that operate on the surface of the moon or when man attempts to manage minute particles. Again, whilst the laws of nature may not change, man's understanding and descriptions of such laws clearly do. The law that Newton described and which was refined by Einstein is the same law that we all came to know as children when, every time we dropped something, it fell to the ground.

THE INDUCTIVE AND DEDUCTIVE THINKING PROCESSES

An obvious hazard that applies to both a monist and a pluralist approach to any science is if observation of natural phenomena is replaced by pure theory that is not itself based on any such observation. In the two principle modes of thinking, induction and deduction, induction comes first and only when careful observation of a phenomenon has yielded a consistent pattern of sequence or consequence from which a principle or law may be induced may the reasoning process of deduction take place. Any conclusions drawn through the deductive process then need to be confirmed by accurate observation of the facts. Likewise careful observation is necessary where the third important mode of thinking using hypothesis is used.

Whilst *wishful thinking* may have no place in science it is clearly a temptation that often distorts the rational thinking of most of us sometimes, including some who claim, or are reputed to be, economists. Many of us, seeing the injustices that are, and have been, such a feature of all sorts of economic arrangements all over the world seek to change those arrangements. Some, fearing change will only make matters worse, or believing their interests to be well served by current arrangements, seek to keep things substantially as they are. Under these circumstances the scope for a proliferation of economic theories that reflect such fears or preferences is clearly substantial and those interested in discovering the natural laws that govern the production and distribution of wealth need to be alert to the dangers.

There is clearly more than one way, or even a dozen ways, of missing the point. One check that may be useful in trying to sift the wheat from the chaff is simplicity. If the proposal under consideration is simple it should be possible for almost anyone to verify or refute the observations and reasoning upon which it is based. If the proposal is complex, or is couched in language and formula that few can understand or verify (but many dare not admit), or draws on evidence (or data) that is partial and may not be easily verified - beware!

HENRY GEORGE - THE ORIGINAL ECONOMIC RETHINKER

For many Henry George was the original '*Rethinking Economics*' man. In the forty years that followed the publication in 1879 of his first and most read book, *Progress and Poverty*, in which George challenged the accepted economic doctrines of his day his rethinking provoked a radical rethinking by those whose interests he thus threatened. His scientific approach to political economy did not go down well with either established academics, captains of monopolistic industries, landlords or the politicians who backed them all. His recognition that, as distinct from any claim by landlords, both the suppliers of labour and material capital needed to receive in earnings a proper share of the wealth their contributions made explains why his ideas were not universally attractive to the sectional interests of either anti-capitalist socialists or financial capitalists. To combat his thinking they had to rethink and this in turn explains why his ideas have been ignored by academics whose careers have depended upon the support of sponsors from either the left, right, or centre of the conventional political spectrum.

In 1879 Henry George published one of the bestselling books on political economy ever written, *Progress and Poverty*. By the twentieth century the wisdom he expounded was recognised and supported by many of the world's most respected thinkers including Tolstoy, Einstein, Churchill, Keller, Shaw, Huxley, Woodrow Wilson, Stiglitz, and Friedman. Today Henry George is mostly remembered for his recognition that the systems of taxation employed in his day, and which continue to dominate fiscal policy in the UK and throughout the world, are unjust, inefficient, and ineffective.

He saw how taxes discourage wealth creation, positive economic activity and employment and prevent people and nations from realising their full potential. By ignoring property rights they involve theft and encourage dishonesty and environmental abuse. In short, as a method of raising public revenue, they fail. By offering an alternative, George also showed that taxes are unnecessary for the raising of public revenue.

George realised that some land at particular locations acquired a value that was not due to the actions of any individual or firm but was due to natural influences and the presence, protections and services provided by the whole community. He saw that this value grows as technology advances and as population and the need for public revenue grows, and is sufficient to replace all existing taxes. This could be collected by levying a charge based on periodic land values and is commonly referred to as land value tax or *LVT*. However, George was clear that this is not actually a tax but is a rental payment individuals and groups need to pay to receive exclusive use of something of value from the whole community, i.e. the exclusive possession of a common, limited and highly-valued natural resource.

Henry George's ideas were not limited to his proposal to change taxes. His profound body of theory also included issues such as: the difficulties inherent in the study of political economy, the fundamentals of economic value, a proper basis for private and public property, trade, money, credit, banking and the management of monopolies.

Key to 'the truth' that Henry George tried to make clear is that everything is bound to act in accordance with the laws of its own nature. He saw that these laws of nature operate everywhere, at all times, and throughout a creation that includes man and society and the worlds of body, mind and spirit. Further, that people and societies can only behave ethically and succeed in their own designs where they take proper cognisance of, and act in harmony with, those natural laws.

HENRY GEORGE AND THE STUDY OF POLITICAL ECONOMY

At a lecture that he presented at the University of California (Berkeley) in 1877 George said:

Of the importance of the questions with which political economy deals it is hardly necessary to speak. The science which investigates the laws of the production and distribution of wealth concerns itself with matters which among us occupy more than nine tenths of human effort, and perhaps nine tenths of human thought. In its province are included all that relates to the wages of labour and the earnings of capital; all regulations of trade; all questions of currency and finance; all taxes and public disbursements - in short everything that can in anyway affect the amount of wealth which a community can secure, or the proportion in which that wealth may be distributed between individuals.

Though not the science of government it is essential to the science of government. Though it takes direct cognisance only of what are termed the selfish instincts, yet in doing so it includes the basis of all higher qualities. The laws which it aims to discover are the laws by virtue of which states wax rich and populous or grow weak and decay; the laws upon which depend the comfort, happiness, and opportunities of our individual lives. And as the development of the nobler part of human nature is powerfully modified by material conditions, if it does not absolutely depend upon them, the laws sought for by political economy are the laws which at last control the mental and moral as well as the physical states of humanity.

George goes on to point out how whilst the science of economics is of pre-eminent practical utility its truths are ignored when it becomes a matter of debate as to whether there can be such a science at all. Is economics then all a matter of opinion? A significant fraction of the vast body of economic literature that now exists certainly points to a range of opinions that are held and to the effect that pecuniary interests have in undermining a more scientific approach to the subject.

In his lecture George explained how vested interests were affecting how economics was taught in universities throughout the world and how the promulgation of such self-interested opinions had rendered the science disjointed, indeterminate and discredited. He pointed out how:

[T]his character has been so firmly stamped upon the science itself as currently held and taught that not even men like John Stewart Mill have been able to emancipate themselves.

Even the intellectually courageous have shrunk from laying stress upon principles that might threaten great vested interests; whilst others less scrupulous have exercised ingenuity in eliminating from the science everything which could offend those interests.

George noted, as we may note today, that many academics dare not offend their paymasters by being genuinely scientific.

Campaigners interested in promoting a new approach to the teaching of economics and in encouraging those involved in government to look further than those who they fear to offend would do well to heed George's warning.

Opinions may be interesting or even useful but they are not a proper substitute for scientific investigation of those laws of nature that govern the production and distribution of wealth.