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Neoclassical Economics as a Reaction to Henry George

Mason Gaffney

Outline and Notes used at Lafayette College, June 1991

INTRODUCTION

George self-evaluation in SPE: megalomaniac? Paranoid? It was my first impression, reading it in the climate of 1940. As I have learned more about the period and the literature, however, I have changed my view.

I. PERSONAL ASSOCIATION OF NEO-CLASSICAL FOUNDERS AND GEORGE

A. Personal relations

The founders and leaders of the neo-classical school were personally involved with HG - mostly, if not entirely, as antagonists.

John B. Clark, when at Smith College, debated HG on Sept. 5, 1890 at Saratoga. The occasion was a special day-long meeting of the AEA devoted to "The Single Tax." Clark's paper, "The Moral Basis of Property in Land," was devoted mainly to identifying land with capital. Thereafter E.R.A. Seligman, another debater, induced Clark to leave Smith for Columbia University.

Alfred Marshall attended a lecture by HG at Oxford, ..., and debated him aggressively from the floor. Debate was sharp and bitter. The meeting achieved great notoriety, lasting to the present generation: it was published in the JPE, ...

Francis A. Walker, 1st President of the AEA, attacked HG vigorously for HG's claim that concentration of farmland was on the rise. G replied, Walker rejoined, etc., in a bloodletting duel that left Walker embarrassed. Walker's disdain was evident in a passage from his book, "I will not insult my readers by discussing a subject (Georgist economics) so steeped in infamy." What a contrast with today, when Walker's 1991 successor, Wm. Vickrey, has joined us and is participating actively in our meetings.

Simon Patten ...

E.R.A. Seligman

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Neo-classical Economics as a Defense against Henry George

Worknotes for paper for Lafayette Conference, June 21-23, 1991

Early submission by Mason Gaffney, 18 March 91

I. George's sense of being shut out. SPE.

A. Chicken and egg. Cause or effect of his vigorous attacks on academics?

B. Pressures on academics. Lack of tenure, academic freedom; dependence on patrons of great wealth.

Cite The Goose Step.

Cite letter to John Baden, and other evidence such pressures exist today.

Cite quotes from Art Pick, Lois Krieger.

Cite Dick Jones re Keezer

C. Megalomania and paranoia? Easy to infer that today, after George's work has been trivialized by a century of artful detraction. Put it in the context of the times, however: he really was a major threat to the power structure.
Volume of scholarly articles repudiating HG.

D. Tradition of double standard: dehumanization of George and Georgists, permissiveness toward ungentlemanly conduct to them. Examples.

Diatribes of Walker.

Attacks on H.G. Brown, "mind as twisted as his leg."

Vocabulary of Thomson and Goldstein in W.E.J.

Stereotypes of "cranks."

"Sneering" quality of references, comments, a way of telegraphing socially accepted attitudes.

E. George's misdirected sniping at Austrians, a touch of xenophobia. He correctly intuited they were being imported for their snob appeal and exclusionary value. He did not analyze their content, which might have enriched his own work.

Conclusion: George and his ideas were shut out of approved discourse by forms of "drawing-room violence." George provoked

some of it, but it probably would have happened anyway. George went over the heads of the certified priestly class, directly to the electorate.

II. Key figures in scholarly counterattack

A. Charles A. Spahr.

Seminal thinker, source of several ideas echoed and developed by later critics.

1. Limited capital

2. Rent-creation by elites.

3.

B. John B. Clark

1. Debate at Saratoga. Clark as moralist?

2. Early article in AEA?

3. Patronized by Seligman; moved to bully pulpit at Columbia. Columbia a bastion to protect Manhattan.

4. Distrib of Wealth. Factor symmetry. Rent limited to mp of land.

5. Fusing land with capital.

Mystification of capital concept: deathless capital, equates it to land.

Purged time, and relations of sequence from ec. theory. This cleverly used George against himself, joining G. in rejecting wages-fund theory and its Austrian derivatives. Led to debates with Eugen von Boehm Bawerk, (replicated in next generation by debate of Frank Knight vs. Friedrich von Hayek.)

C. Vilfredo Pareto

1. Only win-win changes are acceptable: status-quo equity. An old tax is a good tax. Contract theory of the state.

2. Transfer rent.

D. Philip Wicksteed

Ambivalent role, perhaps consistent for a Unitarian Minister.

E. Alfred Marshall

F. Fabians

III. Some Key Elements of Neo-classical Economic Theory

A. Factor symmetry

B. 2-factor economy.

C. Timeless. Relations of coexistence only; time purged.

D. Spaceless.

E. Cycles neglected.

F. Ahistorical approach.

G. Amoral approach.

H. Ideal of "uniformity" in taxation.

I. Complementarity, capital and labor.

J. Time compressed into long run and short run.

K. Use of compartmentalization. Unintegrated subdisciplines to contain and sterilize and trivialize George.

Space relegated to Land Econ; resource ecs.; later, environmental ecs.; location theory; later, regional economics. Subdisciplines of lesser status.

Time relegated to "Finance," a grubby course for stock speculators.

Public finance, a generally neglected topic.

Economic History

Institutional Economics

I.O.

L. Price theory; market structure; the disembodied "firm" as the unit, the "entrepreneur" as driving force.

Realistic studies of markets downgraded to I.O., and/or Institutional economics.

M. Policy fatalism. E.g. of Spahr et al on K formation. Cf. 1991 Macro text by George T. McCandless, Jr., sections on adaptive and rational expectations.

IV. Effects of Macro

A. Rediscovery of time and sequence.

B. From fatalism to policy activism, optimism. Hayek leads the self-destruction of Austrian cycle theory by using it as a club to beat down wages. (This replicates earlier abuse of wages-

fund theory, which got used the same way in 19th Century.)

C. Consistency of high K formation and high incomes.

D. Reduced dependence of banks on real estate loans to back demand deposits.

E. Continued emphasis on Platonic or Laputan abstractions. Cite Frederic Hickman. Use some material from Logos.

Emphasis on monetary flows. Demand side.

F. Denigration of supply side. Thus, kept Georgist policies out of the mix. (Ironically, when supply side did come into its own, it was mainly dominated by people who wanted to downtax unearned increments, a.k.a. "capital gains.")