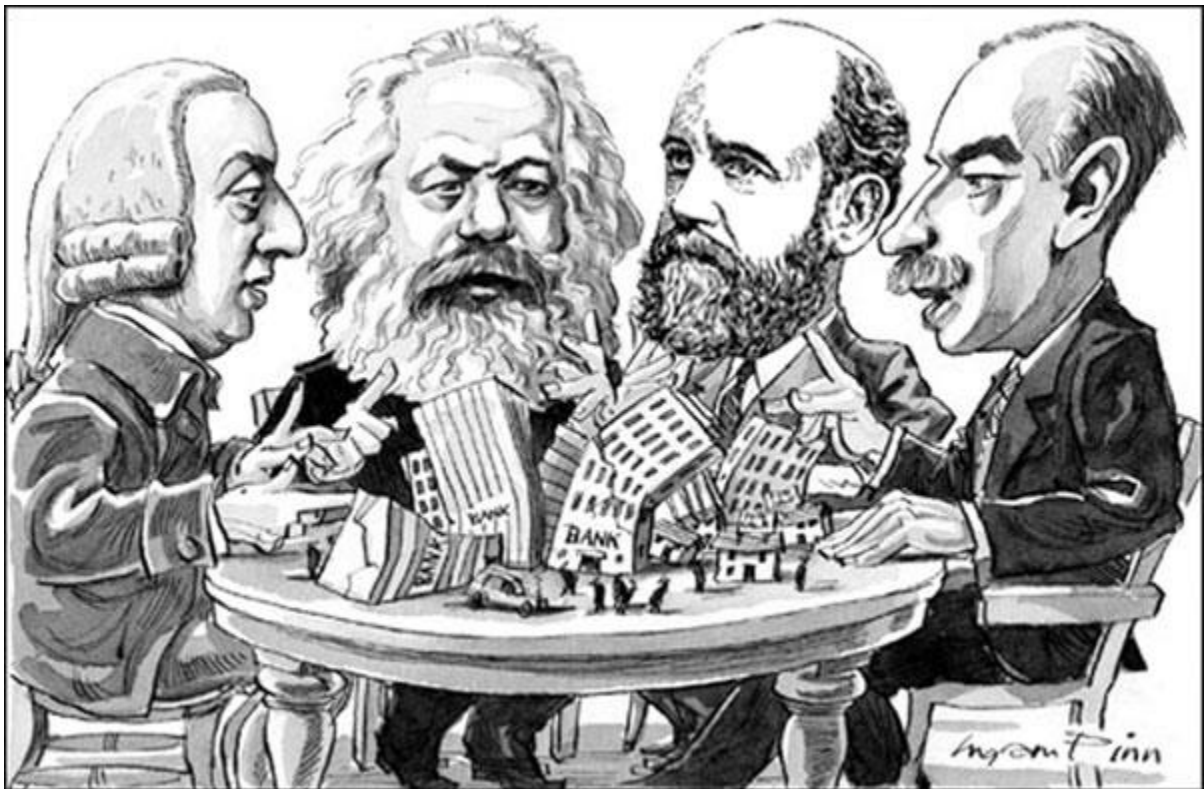


A Dialogue on Political Economy

by Edward J. Dodson

A dialogue involving several participants based on the writings of important contributors to the dialogue on the land question and economic justice, held in 1982 at the Henry George Institute, New York

MODERATOR: Welcome to this roundtable discussion on the subject of political economy. Our guests include some well-respected authorities on political economy and spokesmen for certain particular points of view where policies, prescriptions and issues are concerned. With us today are Robert L. Heilbroner, Adam Smith, Karl Marx, Henry George, Lester C. Thurow, John Maynard Keynes, Gunnar Myrdal, C. Lowell Harris, Arthur Laffer and (although he represents more of a political than economic perspective), former President of the United States, John Adams.



would like to begin our discussion by asking Professor Heilbroner to comment on what has been a very long and unsuccessful search for solutions he has himself termed “the Economic Problem.” Professor Heilbroner?

ROBERT HEILBRONER: Thank you. As a starting point to this discussion, I would suggest to my colleagues that the trouble with economics is that it will not stand still. Issues change, ideas change, understanding changes. Even the past does not look exactly the same from one year to the next, and the present is apt to alter almost out of all recognition.

MODERATOR: How, then, Professor Heilbroner, is one to approach the study of political economy in a manner which has a reasonable opportunity to produce understanding?

ROBERT HEILBRONER: I would emphasize a broad understanding of economic history — not, of course, to learn names and dates, but to gain a sense of the evolution of the economic system, of the internal changes that have gradually altered the setting of economic life, and of the trajectory of economic evolution.

MODERATOR: I believe any of your colleagues would agree about on the importance of understanding economic history. It strikes me that the first significant changes occurred during that time period when the last remnants of feudalism in the European-centered economy were losing ground to the merchants of the nation-states and “capitalism.” Economic historians have pointed to the 16th century for evidence of this process of change. Do you see this period, Professor Heilbroner, as a period of major change?

ROBERT HEILBRONER: Yes, of course. Let me address for a moment these issues of historical change and the growth in the role of government. In antiquity and feudal times one could not easily separate the economic motivations or even the economic actions of the great mass of men from the normal round of existence itself. The peasant following his memorial ways was hardly conscious of acting according to “economic” motivations; indeed, he did not: he heeded the orders of his lord or the dictates of custom. Nor was the lord himself economically oriented. His interests were military or political or religious, and not basically oriented toward the idea of man or increase. The making of money was a tangential rather than a central concern of ancient or medieval existence.

One further comment, if I may. An essential part of the evolution of the market society was thus not only the monetization of life but the mobilization of life — that is, the dissolution of ties of place and station which were the very cement of feudal existence. And this essential requirement of mobility lends to a further point. Mobility meant that any job or activity was now open to all comers. Competition appeared. Now any worker and any employer could be displaced from his task by a competitor who would do the job more cheaply.

MODERATOR: Gentlemen, Professor Heilbroner has presented several rather direct statements concerning the development of political economy as an historical process. I’d like to first ask our Scottish colleague, Adam Smith, how his analysis of these historical processes compares with those of Professor Heilbroner.

ADAM SMITH: What Professor Heilbroner seems to be saying, without really saying it, is something about the nature of man and the nature of political economy with which I can agree. Approaching the historical evolution of the subject somewhat differently, I would spread the science of economics into two general divisions, which may be named natural economics and political economics. Let me explain what I mean by this separation. The first observes and records the behavior of the human race in obtaining its sustenance, as it could reasonably be expected when not interfered with nor diverted by any outside force. This, however, is a state which does not actually exist anywhere in the civilized world. The organization of a civilized society supposes some impairment of individual rights, and some restraint of natural individual

impulses and desires. Until human nature becomes perfect, such restraints are necessary; the problem is to keep them within the narrowest possible limits.

MODERATOR: That problem, Professor Smith, has remained largely unresolved even to the present day. This argument over the proper role of the “state” in the political economy is one of crucial importance. Your ideas, Professor Smith lie at one end of the theoretical spectrum; at the other, perhaps, are those of Karl Marx. Herr Marx, how do you view the question of individual rights, the power of the state and what best responds to human nature?

KARL MARX: Pardon me, please, if I bypass this question for the moment. I, too, would like to comment on the historical processes involved in the evolution of human society. I would simply add, here, that even when a society has got upon the right track for the discovery of the natural laws of its movement it can neither clear by bold leaps, nor remove by legal enactments, the obstacles offered by the successive phases of its normal development. But it can shorten and lessen the birth-pangs.

MODERATOR: What you’ve done, I believe, Herr Marx, is to move our discussion into another area of historical disagreement where the study of political economy is concerned. You seem to have equated change with progress. One of your contemporaries, Mr. Henry George, attempted to distinguish between these two concepts. Mr. George, how would you react to Herr Marx on this issue?

HENRY GEORGE: Time passes, changes occur, but has progress really resulted? By simple observation, I recognized that wealth had been greatly increased, and that the average of comfort, leisure, and refinement had been raised; however, it was true then and is true today that these gains are not general. The lowest class do not share in them. The tendency of what we call material progress is in nowise to improve the condition of the lowest class in the essentials of healthy, happy human life. The new forces, elevating in their nature though they be, do not act upon the social fabric from underneath, as was for a long time hoped and believed, but strike it at the middle. It is as though an immense 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.

MODERATOR: Does this imply, Mr. George, that like Karl Marx you also see the process ending in an inevitable struggle of one class against the other?

HENRY GEORGE: With all due respect to Herr Marx and the large following he has secured, his analysis is materially flawed because he fails to properly distinguish between ownership “classes” which are productive, and therefore advance the progress of society, and those which are nonproductive. By its very nature ownership of capital must involve production in order to generate new wealth. Ownership of land, on the other hand, requires no such ownership activity, only the growth of the community. What Professor Heilbroner terms the “economic problem” can be largely solved by giving labor a free field and its full earnings; take for the benefit of the whole community that fund which the growth of the community creates, and want and the fear of want would be gone. The progress of science, the march of invention, the diffusion of knowledge, would bring their benefits to all.

MODERATOR: So, in your opinion, Mr. George, the real struggle is not between labor and capital; rather, labor and capital are united in a bitter struggle against the landowners. Is that a fair restatement?

HENRY GEORGE: Yes, I have no objection to your summary of my comments. I would, however, like to hear Herr Marx's response.

MODERATOR: Herr Marx?

KARL MARX: Thank you. Viewed from the present, one cannot but marvel at the improvements in the conditions now experienced by a substantial number of workers in the capitalist societies. To what can be this credited? To the generosity of capitalists? To the productivity of labor? Or, perhaps, to the organization of labor into powerful political and economic voices? Long before the period of Modern Industry, cooperation and the concentration of the instruments of labor in the hands of a few, gave rise, to great, sudden, and forcible revolutions in the modes of production, and consequentially, in the conditions of existence, and the means of employment of the rural populations. I concede to Mr. George that this contest at first took place more between the large and the small landed proprietors, than between capital and wage-labor; on the other hand, when the laborers are displaced by the instruments of labor, by sheep, horses, etc., in this case force is directly resorted to in the first instance as the prelude to the industrial revolution. The laborers are first driven from the land. Land grabbing on a great scale is the first step in creating a field for the establishment of agriculture on a great scale.

MODERATOR: What Mr. George seems to be saying, Herr Marx, is that the capitalist per se is not necessarily the culprit. Certainly, the motivations of the various competing groups during the sixteenth century were many — the struggle for power between the feudal lords and the monarchies, the conflict between Protestantism and the Pope, the formation of nation-states, the beginnings of colonialism — all played a role.

JOHN MAYNARD KEYNES: Of course the capitalist, as such, is not the culprit — nor, in my view, is the landowner, as such. Mr. George and others may not agree, but one thing we must recognize is that under the system of “Laissez-faire” and an international gold standard such as was orthodox in the latter half of the nineteenth century, there was no means open to a government whereby to mitigate economic distress at home except through the competitive struggle for markets.

Having said that, I certainly agree that the outstanding faults of the economic society in which we live are its failure to provide full employment and its arbitrary and inequitable distribution of wealth and incomes. However, it must be said that since the end of the nineteenth century significant progress towards the removal of the very great disparities of wealth and income has been achieved through the instrument of direct taxation — income tax and surtax and death duties — especially in Great Britain.

MODERATOR: You see the intervention of government through taxes on income and wealth as an appropriate approach to the distribution problem, then, Lord Keynes?

JOHN MAYNARD KEYNES: I strongly believe so.

MODERATOR: Though there may be others, I suspect one member of our group in particular may strongly disagree, Professor Arthur Laffer of the University of California, and architect of what has come to be called “supply-side” economic theory. Professor Laffer, would you care to respond to Lord Keynes?

ARTHUR LAFFER: To begin with, I strongly believe the demand side policies which had been applied in their entirety did not avert the economic collapse of the mid-1970s and in my view actually brought it about. The most damaged by the contraction were the disenfranchised members of society, including minorities, youths and the chronically disadvantaged.

MODERATOR: If the demand management policies originally developed by Lord Keynes during the “Great Depression” are inappropriate, what will work?

ARTHUR LAFFER: Basically, people don’t work to pay taxes but instead work to receive something after tax. Likewise, businesses don’t invest as a matter of social conscience but do so to make an after-tax return on their investments. It is axiomatic that when more of a good is produced its price falls. Tax rate reductions do lead to more production and if combined with a good monetary policy should reduce inflation.

HENRY GEORGE: As to the question. of taxation, the mode of taxation is, in fact, quite as important as the amount.

MODERATOR: Gentlemen, the reality of the world has been an absence among even the so-called “advanced” and industrialized societies of a political economy able to produce an adequate standard of living for all, Why do you think this is so? Yes — Professor Smith.

ADAM SMITH: Far too few of those in our profession paid much attention to the lessons taught by history. In every instance, as soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce. The man who cultivates the land must give up to the landlord a portion of what his labor collects or produces. This constitutes the rent of land which must be included in the price of most commodities.

MODERATOR: What about those societies where private ownership of land has been eliminated, as in most of the communist-run societies?

ADAM SMITH: I’m willing to address this point; however, I’d like to hear from someone here who actually had to face the issue of private property in land as a basic political issue such as President John Adams.

JOHN ADAMS: I, too, believe that property in the soil is the natural foundation of power and authority. Three cases of soil ownership are supposable. First, if the prince own the land he will be absolute. All who cultivate the soil, holding it at this pleasure, must be subject to his will. Second, where the landed property is held by a few men the real power of the government will

be in the hands of an aristocracy or nobility. Third, if the lands are held and owned by the people and prevented from drifting into one or a few hands, the true power will rest with the people, and that government will, essentially, be a Democracy, whatever it may be called. Under such a constitution the people will constitute the State.

MODERATOR: The protection of property rights was an extremely important issue behind the conflict between the American colonies and its mother country, England. Why is the private accumulation of land such an important element in the classical perspective on political economy?

HENRY GEORGE: The long-term effects are best illustrated by the constant existence of speculation where private ownership has been protected by the governing authority. Essentially, the influence of speculation in land is a great fact which cannot be ignored in any complete theory of the description of wealth in progressive countries. It is the force, evolved by material progress, which tends constantly to increase rent in a greater ratio than progress increases production, and thus constantly tends to reduce wages, not relatively, but absolutely. It is this expansive force which brings to new countries, seemingly long before their time, the social diseases of older countries.

GUNNAR MYRDAL: Thank you very much, Mr. George. Findings in a study we did on Southeast Asia in the late 1960s revealed there are other factors that, by keeping down the labor productivity, together are responsible for low average incomes and low standards of life. Very low living levels decrease the amount of labor input and also the intensity and efficiency of the work actually performed on the land by the labor force. Low incomes are only the other side of low labor productivity; a vicious cycle makes poverty and low levels of living, or low labor productivity; self-generating.

Behind this unfortunate causal mechanism there is a social system of institutions and power relations, that is severely inimical to productivity, at the same time as low productivity establishes itself as the norm. And within this social system, both shaped by it and upholding it, are the ingrained attitudes of people in all classes. Among the non-physical factors that keep down labor productivity are also the primitive techniques employed in agriculture, likewise both a function of the existing social system, which deprives the tillers of both capital and incentives to greater effort, and a prop to that system.

MODERATOR: That sounds very much like a prescription for social and political upheaval, which has certainly been the experience in Southeast Asia. Professor Heilbroner, can you add anything to Gunnar Myrdal's statement?

ROBERT HEILBRONER: In my view the prerequisite for economic progress for the underdeveloped countries today is not essentially different from what it was in Great Britain at the time of the industrial revolution, or what it was in Russia in 1917. To grow, an underdeveloped economy must build capital.

MODERATOR: How important to capital building are these social and political factors discussed by both Gunnar Myrdal and Henry George?

ROBERT HEILBRONER: Very important, obviously. How is a starving country to build capital when 80 percent of its people are scrabbling on the land for a bare subsistence? The crowding of peasants on the land has resulted in a diminution of agricultural productivity far below that of the advanced countries. Hence the abundance of peasants working in the fields obscures the fact that a smaller number of peasants, with little more capital could raise a total output just as large. By raising the productivity of the tillers of the soil, a work force can be made available for the building of roads and dams, while this “transfer” to capital building need not result in a diminution of agricultural output.

MODERATOR: Is this a realistic approach to a solution, Professor Heilbroner, when there is so much political turmoil in most of these countries?

ROBERT HEILBRONER: Understand that what I have outlined is not a formula for immediate action. In many underdeveloped lands, the countryside already crawls with unemployment, and to create overnight, a large and efficient farming operation would create an intolerable social situation. We should think of the process as a long-term blueprint which covers the course of development over many years. It shows us that the process of development takes the form of a huge internal migration from agricultural pursuits, where labor is wasted, to industrial and other pursuits, where it can yield a net contribution to the nation’s progress.

MODERATOR: The problem I see in your statement is that even in the developed, industrialized capitalist economies unemployment and underemployment remain as major problems. And, government redistributive programs have not addressed the issue of creating productive employment opportunities. Not much time remains, but I would like to hear from Lester Thurow, whose book *Zero Sum Society* attempts to deal with this. Professor Thurow?

LESTER THUROW: To have no government programs for redistributing income is simply to certify de facto that the existing market distribution of incomes is equitable. One way or another, we are forced to reveal our collective preferences about the “just” distribution of economic resources. As a result, one basic responsibility of government in a market economy is to create an equitable distribution of income and wealth if it has not been produced by the market.

MODERATOR: What do you see as the role of the political economist in light of the increasing dependence upon government to achieve some degree of economic justice?

LESTER THUROW: My feeling is that although modern economics springs from the search for a definition of economic justice, it has largely abandoned that search. Thus, nineteenth century economists, such as John Stuart Mill and our other historical colleagues, spent much of their time searching for the principles that would lead to a condition of equity. But by the 1940s, economists reluctantly came to the conclusion that there were no economic statements that could be made about equity.

MODERATOR: Would you agree, Mr. George, with Lester Thurow’s conclusion that equity is inapplicable as an economic concept?

HENRY GEORGE: I have written, and still believe, that the association of poverty with progress is the great enigma of our times. It is the central fact from which spring industrial, social, and political difficulties that perplex the world, and which statesmanship and philanthropy and education grapple in vain. From it come the clouds that overhang the future of the most progressive and self-reliant nations. So long as all the increased wealth which modern progress brings goes but to build up great fortunes, to increase the luxury and make sharper the contrast between the House of Have and the House of Want, progress is not real and cannot be permanent. To educate men who must be condemned to poverty, is but to make them restive; to pass on a state of most glaring social inequality and political institutions under which men are theoretically equal, is to stand a pyramid on its apex.

KARL MARX: A pyramid standing on its apex will inevitably fall.