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Henry George and the Crisis of Inequality

Progress and Poverty in the Gilded Age

Edward T. O'Donnell



Columbia University Press New York

prisons, and men toiling from sunrise to dark, and women brutalized by want, and children robbed of their childhood shall be things of the past.⁷⁶

In these words and in his earlier reform proposals, we see George developing an increasingly radical, utopian vision of the capitalist future that departed in significant ways from the antebellum republican past.⁷⁷

The outlines of the system of political economy George would develop into *Progress and Poverty* and later pursue as an activist in New York City were clear by the mid-1870s. Raised in a culture of antebellum republicanism and free labor mantras, he held fast to the belief that minimalist government and free-market capitalism offered society the best conditions for material abundance, equal opportunity, and true republican government. But as George observed a republican society in crisis, he began to argue that a modern market economy—in ways unanticipated by the Founding Fathers—could no longer guarantee that the virtuous traditions of American society would flourish indefinitely. More and more, he sought to remove the blinders of complacency from his readers' eyes to reveal and pinpoint the threats posed by monopoly in land and industry to the foundations of republican society. This new situation, he argued, warranted a radical rethinking regarding contemporary orthodoxies on the sanctity of private property and the negative state.⁷⁸

“Poverty Enslaves Men We Boast Are Political Sovereigns”

*PROGRESS AND POVERTY AND
HENRY GEORGE'S REPUBLICANISM*

What is the good of having a republic unless the mass of the people are better off than in a monarchy? Does not a real republic mean that all men have an equal chance and not millions born to suffering and poverty?

—*Boston Pilot*, November 2, 1878

There will soon come an armed contest between capital and labor. They will oppose each other, not with words and arguments, but with shot and shell, gun-powder and cannon. The better classes are tired of the insane howling of the lower strata and they mean to stop them.

—General William T. Sherman, 1883

“WE HAVE AMONG US A PERNICIOUS COMMUNISTIC SPIRIT”

As Henry George evolved as a radical reformer in the early 1870s, his personal life took a turn for the better. With Annie's health finally restored and his career track firmly established for the moment, George sent for his family. Together after nearly two years of separation, they reestablished their happy home life in a house in San Francisco's Mission District, not far from the *Daily Post*. Successful at last—not just financially, but in the realm of influencing public opinion as well—George was able

to fulfill a goal he established for himself nearly ten years before in that desperate winter of 1865: "to minister to the comfort and enjoyment of those whom I love most."¹

By late 1874, even greater success appeared imminent. George and his co-owner, enthused by the *Daily Post's* continued success, decided upon a bold plan to buy their own printing presses and expand their paper's size and circulation. They brought in a wealthy third partner and took out a loan for \$18,000; by January 1875, the new system was up and running. They added a weekly edition of the *Daily Post* not too long after, which became the largest selling newspaper in California. By August of that year, they started the *San Francisco Morning Ledger* (the *Daily Post* was an evening paper), including a large Sunday edition with pictures (a first). By the fall, the risk seemed to be paying off.²

And then everything collapsed. Even as George's newspaper enterprise expanded, the U.S. economy was falling apart. The Panic of 1873 began on September 18, 1873, when the nation's largest bank, Jay Cooke and Company, went under. The bank failure triggered an earthquake through the nation's entire financial system, one so severe that the New York Stock Exchange closed for the first time in its history. The United States had experienced panics and economic downturns in the past, but none compared to what unfolded in the 1870s, and it brought an intensity of suffering unmatched in previous economic depressions. Over the next five years and five months—the longest period of sustained economic contraction in American history—some 54,000 businesses and 5,000 banks failed and half the nation's railroads fell into receivership. Unemployment skyrocketed to unprecedented levels, perhaps as high as 30 percent, leaving hundreds of thousands of workers vulnerable to eviction and starvation. Farmers fared no better—plummeting commodities prices pushed vast numbers into insolvency and default.³

To his distress and dismay, George's *San Francisco Daily Post* was among the many thousands of businesses claimed by the economic crisis. On November 27, 1875, a few days after the Bank of California folded, an "utterly worked down" George closed his newspaper's doors for good, leaving him empty-handed after investing so much time and energy. "Sometimes I wonder at myself," he confided in a letter to John Swinton, "for giving up so easily what I had won so hardly."⁴

Economic historians often consider the wreckage wrought by the Panic of 1873 just the beginning of a larger Great Depression (also known as the Long Depression) that lasted from 1873 to 1898. These years, which included two brutal depressions (1873-1879 and 1893-1898) and a severe recession (1884-1885), constituted the longest period of sustained deflation (1865-1898) in American history.⁵ They also marked a sudden and dramatic shift in the national economy from one centered on small proprietary capitalist enterprises (small shops and farms) to one dominated by corporations. Industrialists who withstood the wave of business failures did so by intensifying managerial control over their workplaces, investing heavily in mechanization, and slashing costs—especially wages. Corporations grew larger in size and power and, in contrast to the antebellum era when they were viewed as "creatures of the state," increasingly independent of political and legal control.⁶

In the face of massive unemployment, desperate workers had no choice but to accept these changes. Across the nation, labor unions crumbled and disappeared (national membership dropped from 300,000 in 1873 to under 50,000 in 1877). But working-class Americans did not accept these hard times quietly. Indeed, they responded to the depression and unrest of the 1870s by forming movements such as the Grangers and the Knights of Labor and political organizations like the Greenback Party and Workingmen's Party. These advocates articulated an increasingly sharp critique of laissez-faire capitalism that built upon the republican protest tradition of the antebellum period.⁷

Yet these efforts did little to alleviate the very real suffering of workers and farmers. As a consequence, the number of strikes and labor conflicts increased dramatically during this period, as did the degree of bitterness and violence that accompanied them. Two events in 1877 stand out in particular. On June 21, 1877, a decade-long struggle by miners in Pennsylvania against powerful mining and railroad interests ended with the hanging of ten men alleged to be part of a terrorist conspiracy called the "Molly Maguires." The trials, convictions (most on thin and questionable evidence), and executions of the Mollies (twenty in total) garnered national media attention that depicted the miners as violent, communist foreigners who earned a richly deserved fate at the gallows.⁸

Any calm and reassurance brought by the executions to jittery elites evaporated only a few weeks later, when railroad workers across the country, from Maryland to the Midwestern states, staged the biggest strike in the world in the nineteenth century. The "Great Uprising" was astonishing not simply for its sheer size, but also its violence. Workers in many locales destroyed railroad property, while federal troops and state militias from Maryland to Illinois killed at least a hundred people.⁹

The impact of the Great Uprising of 1877 on Gilded Age society and politics is almost impossible to exaggerate. More than simply terrifying many Americans, it challenged the very foundations of their understanding of republican society. Beneath the periodic struggles over the meanings of terms like "liberty" and "independence," a wide swath of the American public more or less shared a republican vision of a good society based on a citizenry that enjoyed both political freedom and equal access to economic opportunity. Central to this republican self-image was the belief that the United States stood alone in the world, immune to the negative historical forces that beset the fractious nations of the Old World, including the diminution of democracy, equality, virtue, and opportunity and the rise of decadence, inequality, and class conflict. The United States, in other words, stood in stark contrast to Europe, land of monarchs, landed aristocracies, fixed classes, established churches, and social conflict.¹⁰

The turmoil of the 1870s, culminating in the bloody Great Uprising, dealt a heavy blow to this self-confident republican optimism. As the suffering and unrest spread and festered during the depression years, Americans were confronted with overwhelming evidence that a vast and growing number of their fellow citizens lived as poorly paid wage earners. Worse, they seemed destined to *remain* in this status for life, unable to achieve true economic independence. The recognition of this large, angry, and permanent working class called into question the free labor faith that the dynamism of the market would forever generate opportunity for all, thus fending off the rise-decline-fall fate that awaited all other societies. In short, the depression of the 1870s in general, and the Great Uprising in particular, ushered in a republican crisis that prompted many Americans to wonder whether their nation was doomed to suffer the fate of the Old World.¹¹



The Great Uprising of 1877. "The Great Strike—The Sixth Maryland Regiment Fighting Its Way Through Baltimore." *Harper's Weekly*, August 11, 1877. Courtesy of the Library of Congress

The different answers various Americans offered to this question reflected the emergence of increasingly sharp class boundaries.¹² While working-class Americans and reformers like Henry George saw mounting evidence that the republican promises of equality, freedom, and upward mobility were dissipating before their very eyes to benefit unscrupulous monopolists and their political allies, middle- and upper-class Americans came to vastly different interpretations of the republican crisis. Their assessment often took two forms. One consisted of a glowing narrative celebrating "progress." Huge national celebrations attended the completions of the Atlantic Cable (1866) and the transcontinental railroad (1869), the opening of the Brooklyn Bridge (1883), and the unveiling of the fully assembled Statue of Liberty (1886). Millions flocked to the Centennial Exposition in Philadelphia (1876). "The prosperity which now prevails," blithely said President James A. Garfield in 1881, "is without parallel in our history."¹³

But amidst these optimistic proclamations emerged a second interpretation that denounced protesters and strikers as *the mob*. For years they had been haunted by the fear that rising social unrest among the nation's "dangerous classes" could at any moment explode in bloody revolution, as it had only a few years before in the Paris Commune of 1871. Now their worst fears seemed realized. "The Commune had risen in its dangerous might and threatened a deluge of blood," declared one typical chronicler of the uprising. John Hay, future secretary of state for William McKinley and Theodore Roosevelt, was no less hysterical in a private letter to his father-in-law. "Any hour the mob chooses," he wrote, "it can destroy any city in the country—that is the simple truth."¹⁴

This demonization of the lower orders of society reflected a broader effort by elites in this period to redefine key aspects of the republican tradition. Republican liberty and free labor were redefined to essentially mean laissez-faire individualism. Every member of a republican society, their argument went, was at liberty to make his or her own way in the competitive marketplace, free of any constraints beyond a minimal set of laws. Similarly, republicanism's potentially radical ideal of equality for all was whittled down to simply mean equality of opportunity in the market. "Free labor" now meant simply freedom of contract. This recasting of republican ideals served elite interests by linking economic success with republican

fidelity—they, of course, were the truest republican citizens because they had gained success through a faithful adherence to rugged individualism. This emphasis on individualism had the added benefit of justifying the rejection of all claims that the state play a fundamental role in ensuring equality among the people and promoting the common good. As a result, the doctrine of laissez-faire assumed an almost exalted status in the 1870s and 1880s, allowing prosperous and powerful Americans to dismiss the claims of protesting farmers and dissatisfied workers as the misguided rantings of society's losers.¹⁵

Also gaining popularity in this period was laissez-fairism's most extreme offshoot: social Darwinism. British philosopher Herbert Spencer, social Darwinism's most prominent popularizer, posited that competition among human beings led inexorably to the "survival of the fittest" and the elimination of the "unfit." No amount of utopian theory, enlightened social policy, or Christian charity could alter this basic fact of human life. Spencer's counterpart in America, Yale sociologist William Graham Sumner, pushed the point further, arguing that "millionaires . . . may fairly be regarded as the naturally selected agents of society" while a "drunkard in the gutter is just where he ought to be." Many Gilded Age industrialists, seeking to justify both their tremendous wealth and the minimal wages they paid, understandably embraced social Darwinism. It was precisely this trend that Henry George had in mind when a few years later he condemned social Darwinism as a "comfortable theory" for its ability to ease the guilty consciences of the successful.¹⁶

This elevation of laissez-faire individualism to the apex of the hierarchy of republican ideals and the embrace of social Darwinism among society's rich and powerful reflected a decisive departure from earlier forms of American republicanism that stressed a unified polity and concern for the common good. Middle- and upper-class Americans in the Gilded Age redefined the republican polity in such a way that placed poor and restive farmers and workers *outside* the sphere of legitimate republican citizenship. According to this new line of thinking, which might be termed "laissez-faire republicanism," the greatest menace to the American republic was not the widening gap between the rich and the poor, but rather the possibility that the poor would mobilize *collectively* against their betters, either by

ballot or bullet, and take what did not belong to them. As a result, members of the middle- and upper-classes in the 1870s launched campaigns to disenfranchise working-class voters. (At the same time, and for similar reasons, they made no effort to stop the disenfranchisement of African American voters in the South.) They also sharply curtailed charity, deeming it harmful to the morals and manners of the needy.¹⁷

Despite the rising chorus of opinion celebrating minimalist government and laissez-faire individualism, middle- and upper-class Americans nevertheless held a markedly inconsistent vision of the role of the state. Laissez-faire doctrine was clear on this matter: the ideal state was a minimal one that allowed free individuals the greatest possible latitude in their pursuits of happiness. But laissez-faire was more a conveniently flexible principle than a clear and firmly adhered practice. Even as Americans in more privileged classes rejected the calls for reform by mobilized workers and farmers as treacherous appeals to state power that violated the sacred values of laissez-faire, they themselves began to use the state to fortify and enhance their established positions in society.¹⁸

The clearest example of elites' reliance on the state in this period was their shared belief, if not insistence, that working-class protest be answered with state-sponsored violence. This not only violated laissez-faire, it also represented yet another dramatic reordering of traditional republican values. For while republicanism had always valued social order, sanctioning on rare occasions the use of state power to quell civil disturbances (e.g., the Whiskey Rebellion), it had long given primacy to the fear that standing armies spelled the eventual demise of liberty. But in the Gilded Age, elites increasingly demanded that federal and state military power be brought to bear against workers they themselves deemed threats to order, private property, and market freedom. For example, the *Independent*, a religious weekly, called for "bullets and bayonets, canister and grape" to "exterminate" unruly mobs. In the wake of the Great Uprising of 1877, wealthy urbanites around the country embarked on a program of armory construction in large cities to house and equip state militias. Of course, these installations also would offer refuge to upper-class refugees should the dangerous classes explode again. This "militarization of class relations," to use Sven Beckert's apt phrase, occurred at precisely the moment that respectable opinion in

the North was invoking the traditional republican aversion to a standing army to justify the removal of federal troops protecting African Americans in the South.¹⁹

Wealthy and powerful Americans defended this extraordinary appeal to and use of state violence by reiterating, despite mounting evidence to the contrary, a core republican article of faith: America was a classless society. The problem in the 1870s—and the true source of the Great Uprising—was the misguided but growing conviction among many farmers and workers that American society was splitting into classes with opposed interests, they argued. As Allan Pinkerton, head of the Pinkerton Detective Agency, argued in the wake of the Great Uprising, "we have among us a pernicious communistic spirit which is demoralizing workmen, continually creating a deeper and more intense antagonism between labor and capital. . . . It must be crushed out completely, or we shall be compelled to submit to greater excesses and more overwhelming disasters in the near future." Deeming class antagonism unnatural and evil provided the necessary validation for state suppression of dissent. State power would be called upon to maintain America's harmonious, classless, laissez-faire republic.²⁰

"THE GREAT ENIGMA OF OUR TIMES":
PROGRESS AND POVERTY

It was in this context of economic contraction, social turmoil, and ideological reconfiguration that Henry George decided to write what would become his famous work, *Progress and Poverty*. Like many Americans, George was deeply troubled by the widespread suffering and unrest of the mid-1870s. While the epic violence of the Great Uprising of 1877 did not reach California, news of it did stir the passions of local workers, record numbers of whom were out of work. Matters took an ugly turn on July 23, 1877 when, following a rally of workers on the Sand Lots near San Francisco's city hall expressing sympathy for the striking railroad workers, an anti-Chinese faction attacked and sacked Chinatown. Known as the Sand Lots Riots, the disturbances lasted four straight days and were the worst in San Francisco's history.²¹

By the time of the riots, George had rebounded from the loss of the *Daily Post*. Through his connections with the local Democratic Party he secured a patronage job as inspector of gas meters, a position that earned him enough money to support his family while placing only nominal demands on his time. Financially stable, intellectually mature, and mystically driven, George shrugged off the tragedy of the *Daily Post* and embraced the near future as a chance to continue his study of political economy and write a book. Years later, with the benefit of hindsight and his incurable optimism, he later concluded that losing the *Daily Post* amounted to "good fortune in the guise of evil."²²

According to his diary, George commenced writing the book that became *Progress and Poverty* on September 18, 1877, less than two months after the Great Uprising and the Sand Lots Riots. These terrifying upheavals lent great urgency to his work, but his quest had truly begun nearly a decade earlier when he experienced that vision on the streets of New York City in 1869. "When I first realized the squalid misery of a great city," as he would explain, "it appalled and tormented me, and would not let me rest, for thinking of what caused it and how it could be cured."²³ By mid-March 1879, after eighteen months of intense effort inspired by the motto "hard writing makes easy reading," he completed his manuscript.²⁴

George initially gave his book the rather drab title of *Political Economy of the Social Problem*. Fortunately for him, he settled upon a title that succinctly and alliteratively captured the vexing duality of the age during the final revisions: *Progress and Poverty*, with the subtitle, *An Inquiry into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth*. He divided the immense tome (563 pages in the original edition) into twelve sections—ten "books," placed between an introduction and a conclusion. Seeking to elevate political economy above a theory-laden discipline dedicated to upholding the status quo to the detriment of society as a whole, George wrote both a sophisticated economic treatise that engaged the theories of David Ricardo and Thomas Malthus and a moral entreaty that invoked Jesus Christ and the Founding Fathers. Two main questions, therefore, dominate the work: Why does poverty always accompany material progress? How is humanity morally compelled to respond? While he treated the economic and moral analyses separately

throughout most of the work, he came to draw the two together in the end, firmly asserting that they were inseparable—albeit with the moral argument taking priority.²⁵

In the introduction, George set forth "The Problem" he intended to address and solve: that despite a century of unparalleled material progress, a majority of Americans enjoyed less and less of its benefits. This republican crisis stood in stark contrast to the expectations of the post-Revolutionary War generation. George asked the reader to consider what a figure like Benjamin Franklin would have thought of American society if told of the coming of railroads and factories, of electricity and telegraphs:

He would have beheld these new forces elevating society from its very foundations, lifting the very poorest above the possibility of want, exempting the very lowest from anxiety for the material needs of life; he would have seen . . . these muscles of iron and sinews of steel making the poorest laborer's life a holiday, in which every high quality and noble impulse could have scope to grow.

In other words, Franklin and other contemporaries would have envisioned the dawning of "a golden age."²⁶

This hypothetical vision of Franklin, noted George, represented the hopes and dreams of nineteenth-century Americans as they witnessed a steady stream of revolutionary technology and ideas. It reflected the republican faith in continuous progress. And yet, instead of a golden age, America was trapped in a state where the beguiling glitter of progress was offset by the bleakness of industrial depression, business failure, involuntary unemployment, and mass poverty—a superficiality that Mark Twain and Charles Dudley Warner sought to convey with the title of their 1873 novel *The Gilded Age: A Tale of Today*. These harsh and unwelcome present realities called into question the viability of the republic. The evidence of a republican crisis was both abundant and undeniable.²⁷

What America and other developed societies had in common was material progress. To illustrate this point, George asked the reader to compare conditions in "newer" (less developed) and "older" (developed) societies. In the former, there was little poverty, as well as high wages and rates of

interest paid on investment. But as newer societies experienced increased material progress, the signs of social dissolution followed close behind:

The "tramp" comes with the locomotive, and almshouses and prisons are as surely the marks of "material progress" as are costly dwellings, rich warehouses, and magnificent churches. Upon streets lighted with gas and patrolled by uniformed policemen, beggars wait for the passer-by, and in the shadow of the college, and library, and museum are gathering the more hideous Huns and fiercer Vandals of whom Macaulay prophesied.²⁸

Far from establishing a golden age of widespread comfort and expanded opportunity as many had hoped and predicted, material progress actually produced a society where "amid the greatest accumulations of wealth, men die of starvation, and puny infants suckle dry breasts; while everywhere the greed of gain, the worship of wealth, shows the force of the fear of want." The virtuous republic of independent producers, so central to the hopes of Franklin, Jefferson, and Jackson, now appeared out of reach. "The promised land," confessed George, "flies before us like the mirage."²⁹

Extremes of wealth also violated both Christian morality and republican equality. "It is as though an immense wedge were being forced, not underneath society, but through society," he argued. "Those who are above the point of separation are elevated, but those who are below are crushed down." So long as material progress served only to increase the fortunes of the wealthy few and the misery of the many poor, it was only a spurious progress. It was here that the idea that separated George from nearly all his contemporary political economists was most clearly articulated. Far from being the natural and unavoidable result of the lifestyles of weak and sinful people, he asserted that poverty was actually *generated* by particular public policies and laws. In characterizing poverty as *unnatural*, George decidedly broke from the received wisdom of the age. This break, in turn, justified his quest for a remedy. "This association of poverty with progress," concluded George ominously, "is the great enigma of our times. . . . It is the riddle which the Sphinx of Fate puts to our civilization, and which not to answer is to be destroyed."³⁰

Yet, for all its magnitude and foreboding, the all-important question of why poverty increased amid progress remained unanswered by political economists. In noting this, George revealed one of the central purposes of his book—to attack the discipline of political economy itself and expose the failure of political economists to live up to their true mission of providing guidance to "the great masses." Due to an "anarchy of opinion" within the discipline, "charlatans and demagogues" were allowed to peddle unsound ideas "fraught with danger," such as paper money, revolutionary socialism, the abolition of interest, and the false but thoroughly convenient theory of *laissez-faire*. "I propose to seek the law which associates poverty with progress," George announced, "and increase of want with advancing wealth." He would, essentially, attempt to single-handedly redirect the science of political economy back to its core purpose, thereby offering society the possibility of regeneration. He warned that the saving message contained in the coming pages would be unsettling to most Americans, but the high stakes involved compelled bold action. The fate of the American republic, indeed all of Western society, stood in the balance. So, he finished, "let us not flinch, let us not turn our back."³¹

George intended his book to supersede all others in its field.³² To do just that, he challenged the very foundation of the age's prevailing economic dogmas of *laissez-faire* capitalism in Book I. Classical economists had explained that an "iron law of wages" dictated that wages always fell to the lowest level at which a laborer could subsist. The productivity of an individual worker bore little relation to the reward he or she would receive for their toil. So even though industrial technology allowed a shoe factory operative in 1875 to produce many times more shoes than a single cordwainer in 1825, he received far less financial reward for his labor. This outcome was not really an injustice, declared classical economists, but was rather the result of the laws of the free market that men and women were powerless to change.

This iron law of wages itself rested upon two widely accepted tenets of classical economics. The first, the wage-fund theory, stated that employers paid wages to workers from previously accumulated capital (e.g., a wage fund). Wages thus cannot be raised at a rate that corresponded to an increase in economic productivity. George attacked this theory precisely because

it placed capital ahead of labor in the hierarchy of basic economic factors. Instead, he proposed to reverse this order, positioning labor *ahead* of capital. To illustrate this radical departure from economic orthodoxy, George used the example of a shipyard. As the constructed ship takes form, men receive wages for the work they perform—wages are not paid out from existing capital (in this case, a previous ship built and sold), but rather from the wealth the workers are in the process of creating. “Wages do not come from capital, but are the direct produce of labor. Each productive laborer, as he works, creates his wages,” he asserted. Based on this understanding, workers ought to receive wages as an advance upon this emerging capital and receive *higher* wages that reflected their greater productivity.³³

The second principle underlying the iron law of wages theory, Malthus’ population theory, argued that poverty accompanies economic progress due to an increasing population that draws upon a fixed, finite amount of resources. While some political economists had already challenged the theory, a good many still accepted it as unimpeachable fact. Not so George. In Book II, he soundly rejected Malthusianism as overly deterministic, a characteristic that ran counter to his Christian and republican faiths in the free will of individuals to change their lives and society. Steeped in the tradition of evangelical perfectionism as he was, George also deemed Malthusian theory blasphemous for its contention that God created a world with insufficient resources for his people. The Great Famine in Ireland—frequently cited by Malthusians as proof of the limited resources theory—was caused, according to George, by rigid British adherence to free trade dogmas. It was not “the inevitable results of universal laws, with which, if it were not impious, it were as hopeless to quarrel as with the law of gravitation.” Finally, George rejected Malthusian theory because it provided monopolists, conservatives, and the increasing number of devotees of social Darwinism with a seemingly scientific means for justifying their privileged status. Rather than confront vested interests, “it is eminently soothing and reassuring to the classes who, wielding the power of wealth, largely dominate thought.”³⁴

With the tenets of contemporary economic theory now sufficiently undermined, George offered in Book III his own explanation for the prevalence of poverty amidst increased aggregate wealth. The real problem lay not with a limited fund of wages, nor with population growth, but rather

with *distribution*. In the last century, he noted, America had produced an unprecedented amount of material wealth. Yet the distribution of said wealth had been vastly distorted, leaving the lives of most people unimproved or worse.

To explain his theory of skewed distribution, George briefly defined his terms. Production consisted of three elements: land, labor, and capital. All wealth produced must be distributed among them—to landowners, to laborers, and to capitalists. This distribution occurred through three basic mechanisms: rent (to the landowner), wages (to the laborer), and interest (to the capitalist).³⁵

ELEMENTS OF PRODUCTION	MEANS OF DISTRIBUTING WEALTH PRODUCED
Land (all natural resources)	Rent to the landowner
Labor	Wages to the laborer
Capital	Interest to the capitalist

By creating separate categories for land and rent, George made another major break from traditional economic theory that generally considered land a form of capital. George argued that capital represented manmade wealth of infinite quantity, whereas land and natural resources existed in finite quantity as a gift of the Creator. Consequently, land existed as a passive entity requiring the application of labor to produce wealth. Land, in short, was not capital for one simple reason: man could not create it. If land existed as a separate and distinct entity within the productive process, then logically the portion of the wealth it received—rent—should also be separate from wages and interest.³⁶

The creation of a separate status for land and rent was crucial to the underlying purpose of *Progress and Poverty*, which was to establish where the vast amount of material wealth created by modern industrial society went—and why. George’s model narrowed the list of possibilities to three—land, labor, or capital. Labor clearly gained just a fraction of the wealth. Yet what about capital? Marxists charged that capital took everything. But George, true to his essential faith in capitalism, defended capital and interest, the mechanism by which capital received its share of wealth. He contended that a truly free and prosperous economy properly rewarded honest capitalists

(as opposed to parasites and speculators) for their foresight, planning, risk-taking, and judicious use of natural resources to create more wealth. But most capitalists in Gilded Age America, while faring better than laborers, failed to receive their fair share of the aggregate wealth produced.³⁷

If capital and labor failed to secure the fruits of production (in the form of interest and wages, respectively), where in the distributive process did the wealth go? According to George's model, the only remaining possibility was that the wealth generated by material progress went to the parasitic monopolizers of land in the form of rent, which over time increased at a rate faster than that of wages or interest. As the production of wealth increased, landowners thus took an ever-growing percentage (rent), leaving less and less for labor (wages) and capital (interest). As George summarized in what might be called his labor-capital theory of value:

Three things unite to production—labor, capital, and land. Three parties divide the produce—the laborer, the capitalist, and the land owner. If, with an increase of production the laborer gets no more and the capitalist no more, it is a necessary inference that the land owner reaps the whole gain. . . . Rent swallows up the whole gain and pauperism accompanies progress.³⁸

Identifying land monopoly and the resulting extortionate rent as the culprits placed George squarely within a republican populist tradition that consistently condemned "parasitic" wealth.³⁹ It also allowed George to reject class conflict and other claims of an inherent antagonism between labor and capital. The real "antagonism of interests," George made clear, "is not between labor and capital, as is popularly believed, but is in reality between labor and capital on the one side and land ownership on the other."⁴⁰

If material progress led to rising rents, which in turn left less and less of created wealth to labor and capital, George still had to explain what *caused* rents to rise and why they rose at rates that exceeded that of wages and interest. In Book IV, "The Effect of Material Progress upon the Distribution of Wealth," George cited population growth, improved industrial production, and rampant speculation as the central causes of the steep rise in land values and rents.⁴¹

To best illustrate the effect of these factors on production and land values, George looked to the city. A growing urban population greatly increased the utility of each parcel of land, especially when combined with improved technology. As a consequence, far more wealth could be produced on a tenth of an acre of Manhattan in 1879 than on a dozen acres of similarly situated land in 1815. As a result, land values and rents rose rapidly and, according to George's theory of skewed distribution, siphoned off most of the newly created wealth not to the labor that produced it, nor to the capital which facilitated it, but to land, or more precisely to the owners of land, who did nothing to earn it. "The increased production of wealth goes ultimately to the owners of land in increased rent. There is in all this improvement nothing which tends to increase the general return to labor or to capital." This problem only worsened over time as landowners, consumed by greed, hiked rents and speculated in land in anticipation of still greater rises in value and subsequent profits. As speculators took more and more land out of productive use, new societies aged prematurely, suffering "long before their time, the social diseases of older countries." Modern industrial cities like New York, noted George (doubtlessly recalling his visit in 1869), thus emerged as centers of extraordinary wealth but also extreme poverty, stifled opportunity, and bristling tensions between capital and labor.⁴²

George's careful progression through the fields of classical economics and contemporary political economy now led him, as the title of Book V indicates, to declare "The Problem Solved." After more than 250 pages of strict analysis, George succinctly identified the problem of modern industrial society in just two simple words: land monopoly. Land to George meant more than simply real estate; he broadly defined it as "all natural materials, forces and opportunities." Material progress ought to promise the betterment of all levels of society in the form of greater comforts, less drudgery, and higher learning. "But labor," argued George, "cannot reap the benefits which advancing civilization thus brings, because they are intercepted" by the monopolizers of land.⁴³

This point clearly marked the boundaries of George's radicalism. The injustice against which he worked was not industrial capitalism itself, but rather what he viewed as its illegitimate cooptation. Like many of his