

Henry George Institute - Applied Principles of Political Economy

This 10 lesson course is available to students who have completed Fundamental Economics (based on Progress & Poverty). It is part II (complete in itself) of a three-part study in **Principles of Political Economy**. This second part, which is called **Applied Economics**, explores the application of economic principles to national and international problems. It is based on two books Protection or Free Trade and Social Problems, both by Henry George.

The first part of the course, **International Trade**, explores a crucial question in the world today: whether trade between countries ought to be restricted, and whether the workers and business (labor and capital) of a country can or should be protected from the competition of labor and capital in other countries. In so doing, it uncovers the economic problem behind that of trade.

The second part of the course, **Social Problems**, looks at a wide range of topics, covering, as George says in his introductory note to **Social Problems**, "some points not touched upon, or but lightly touched upon, in **Progress and Poverty**" Among these topics are overproduction, public debts, the functions of government, the farm problem and urban problems.

Many situations are the same today as in George's day (**Social Problems** was written in 1883, **Protection or Free Trade** in 1886), and the student will note the same penetration to the heart of the problem as George shows in **Progress and Poverty**. Some situations have changed over the course of the years, and where this is the case, study supplements accompanying the lessons will survey the matter. It is however, noteworthy how many of today's problems are the same. And, it should be added, the underlying principles do not change.

In **Social Problems**, George says, "We cannot safely leave politics to politicians or political economy to college professors. The people themselves must think, because the people alone must act." In this spirit, a clear non-technical approach is pursued.

Following is an outline of **Applied Economics**:

Part I - International Trade

- Lesson I - Introductory
- Lesson II - Protection as a policy
- Lesson III - Trade and Tariffs
- Lesson IV - Money and profits
- Lesson V - Protection and Wages
- Lesson VI - True Free Trade

Function of

- Government
- Lesson X - Rural and Urban Problems

Part II - Social Problems

- Lesson VII - The Individual and Society
- Lesson VIII - Rights and Wrongs
- Lesson IX - Public Debts;

LESSON I - REVIEW

We ask you to first review the main points of Fundamental Principles listed below, before applying these principles in the advanced course. After that are a list of questions that have been debated since the founding of the Republic, and are thoroughly explored in the following lessons.

Review of Fundamental Economics. I have answered the questions for you. Please give these concepts ample consideration, Mike Curtis

1. What are the four characteristics of wealth? 1. It must be material. 2. It must be produced by human exertion. 3. It must be capable of satisfying human desire. 4. It must have a value in exchange.

2. Name and define the three factors in the production of wealth. **Land**, the entire material universe, excluding people and their products. **Labor**, all human exertion, mental and physical, expended in the production of wealth. **Capital**, products used to produce more products for exchange. Because exchanging products is part of production, it includes all products in the course of being made and exchanged.

3. Name and define the three avenues of distribution. All wealth is divided into Rent, Wages, and Interest. Rent accrues to the owners of land; Wages accrue to the people who's labor produces wealth; Interest accrues to the owners of capital.

4. State the laws of rent, wages and interest. The Law of Rent. The rent of land will be determined by the excess of its produce over that which the same application [of labor & capital] can secure from the most productive land that is free. When there is no free land, then it is the least productive land in use. They are the same thing because no one would use any particular land if better land were available free—and no land will be used if it can not yield enough wealth to pay wages and interest sufficient to sustain production.

The Law of Wages. Wages everywhere will be equal to the entire amount that labor could have produced on the best land that is free—minus what is necessary to induce the storing up capital. The best free land is called the Margin of Production.

The Law of Interest. Interest will be whatever is necessary to induce the storing up of capital where the land is free.

5. What is the effect of increasing population and material progress upon wages, interest, and rent? The increase in population and material progress (inventions, innovations, and new discoveries) increases the results of labor. It also increases the need for land and extends the free-land opportunity to less and less potentially productive locations. At the same time, the increase in productivity from invention and proximity to more densely populated areas, tends to increase the productivity of the land that is free. This more than compensates for the extension of the free-land margin and wages and interest tend to rise as an amount.

Because the superior land is owned, the greater increase in population on superior land increases rents. And because most inventions increase productivity more on naturally superior land and land with larger and denser populations, material progress tends to increase rents as an amount as well. Although wages, interest, and rents all tend to increase as an amount, because productivity is increasing faster on superior lands, wages and interest are decreasing as a portion of what's produced.

6. What is the effect of speculation in land? Land speculation (holding un-used and significantly under-used land) prematurely extends the free-land margin to inferior natural opportunities without an accompanying increase in population or new inventions that tend to compensate for the extension of the free-land margin. The net result is that wages and interest fall as an amount, and rent increases as an amount.

7. What is Henry George's basic remedy and what is his recommended method of applying it? His basic remedy is to make land (all of nature, except people and their products) common property. That is to say, give all people equal rights to the natural opportunities to live and work (produce) on. His method was to make land titles conditional upon a payment of the land's rental value (Potential Rent) to the community as representing all the people.

In that way people would only hold the land they were using efficiently, and there would be ample land without value freely available to all.

This land would not be overwhelmed by labor and capital, because the owners of valuable land would have to pay the rent, and in order to pay the rent, they would have to work the land themselves or hire other to. Cities and metropolitan areas would rebuild and expand increasing the demand for labor.

So, the greater potential of cities and urban areas would yield high wages, provide rents to fund the building and maintenance of the infrastructure and public service, and social programs like Social Security and National Healthcare—possibly even a cash dividend.

8. What is the Law of Human Progress, and how does George's remedy conform to this law? The Law of Human Progress is Association In Equality. Association enables cooperation (Specialization and trade), which increases productivity and gives people time to devote to progress (inventions, research, and accumulations). Equality prevents the time saved from being dissipated in conflict and fruitless struggles. With inequality, the "have-nots" expend much of their mental power in merely maintaining existence, while the "haves" expend much of their mental power in keeping up and intensifying the system of inequality.

Henry George's remedy of equal opportunity, private property in the privately produced products labor, and common property in the socially created rent of land conform to the law of human progress by establishing free association in equality.

Applied Economics

The following questions are very much a part of the public dialogue today, and have been since the founding of the republic in 1789. They, along with other questions, will be thoroughly explored as the course proceeds with the examination of Protection or Free Trade—and ultimately the question of True Free Trade is analyzed from the prospective of the workers who's mental and physical exertions produce all wealth.

These questions are only intended to be read as a guide to what will be covered in the course.

1. Is a tariff a tax
2. Can we safely eliminate all tariffs, quotas, reciprocal trade agreements and trade regulations?
3. Would free trade benefit everyone in a country?
4. Does unrestricted “dumping” of goods into a country throw people out of work?
5. Is trade with an unfriendly country desirable?
6. Is the income from government bonds the same thing as interest paid for the use of capital?
7. Do low wages mean low cost of production?
8. Is trade within a country basically different from trade between countries?
9. Does technology prevent people from being re-employed?
10. Does increased production mean increased wages?
11. Do public debts enable the government to borrow from future production?
12. Should government be a guardian of the people's morals?
13. Should government plan the production and distribution of wealth?
14. Is subsidization of agriculture necessary?

Introduction to Part I International Trade

From the inception of the U. S. constitution, tariffs (Import taxes, Duties) were a major source of Federal revenue. This continued until 1913 when they began to shift in favor of the income tax. However, as a means of protecting American industries, the tariff remained a powerful force until 1933, in the depths of the great depression.

Tariffs were raised and lowered many times over the years, with a multitude of different rates for different products, but in 1933, the average tariff was all the way up to 54%. By 1963 the average tariff was only 12%. From the middle of the 1970s to the middle of the 1980s there were increases in protection, but they took the form of Quotas and Import Limitation Agreements. The quotas were substituted for tariffs that were scheduled to be phased out over several years. By 1996 the average tariff was a mere 3%, with most products imported from Mexico and Canada having no tariffs or quotas at all under the North American Free Trade Agreement. However, the tariffs on textiles, which included clothing, were still between 25 and 30%.

While trade agreements like that of NAFTA (North American Free Trade Agreement) include hundreds of pages of provisions that pertain to intellectual property (patents & copyrights), foreign investment, and financial services, a tendency continued with less restricted or penalized trade.

Many of the corporations that were in the past advocates of protection, established facilities in other countries and sent products to the United States. Others are importing component parts which are incorporated into American products. In both cases, tariffs diminish their profits, so, many of them have reversed their positions, and are now in favor of free trade.

However, in spite of corporate America's increasing shift in favor of free trade, the increase in freer trade is coexisting with the loss of many high wage manufacturing jobs. Many of the workers who were displaced by imports, are asking for tariffs and quotas to protect them from corporations which are, in their words, "exporting jobs to countries where they believe low paid labor will eventually pull American wages to the same bare subsistence".

The World Trade Organization (WTO), which began in 1995, replaced the General Agreement on Tariffs and Trade, in operation since 1948. It regulates trade in goods, services, and intellectual property among the participating countries by mutual agreements and resolves disputes. By 2017 the World Trade Organization had over 164 member nations. That same year the average tariff (duty) paid for all goods imported into the US was 1.4%. automobiles were 2.5%, and footwear was 11%.

In 2019, in hopes of getting the Chinese to change their policies on intellectual property, and their own imports, President Trump levied additional tariffs on Chinese goods. According to CNBC, tariffs were increased on more than \$200 billion worth of Chinese goods from 10% to 25% (Aluminum at 10%, steel at 25%). The Chinese have countered with tariffs on \$110 billion worth of American products, mostly agricultural. Another consequence may be that the US auto industry sends \$11 billion worth of automobiles to China annually.

The purpose of studying International Trade is to discover beyond any possible doubt whether tariffs, quotas, or any other form of protection, or whether True free trade is in the best interest of those who work for a living.

Narrative - Lesson II Protection as a Policy

This is a summary of Protection or Free Trade by Henry George - Chapters I - VII

For a fuller explanation of the analysis, the numbers at the end of each paragraph refer to the pages of Protection or Free Trade by Henry George from which they were taken.

Protection, as a national policy

Protection as a national policy consists of duties (taxes) and quotas (a limit to a certain specified numbers of designated products) imposed on imported products for the purpose of protecting producers of similar products within a country, from foreign competition. In promoting protection as a national policy, protectionists contend that tariffs and quotas secure a higher level of prosperity—more jobs at higher wages—within a country than would be possible with free trade. (28)

It is not correct to assume that because the United States levied import taxes, and more recently quotas, (protection) that the growth and prosperity of the country were due to it? **post hoc, ergo propter hoc, After this, therefore because of this.** Because a thing exists with or follows another thing, is not proof that it is because of that other thing. (23-24)

The prosperity of a special interest group does not mean prosperity for the nation. Special interest groups usually seek to benefit themselves. It is often at the expense of the rest of the nation. For example, farm subsidies, which collect billions of dollars in taxes from other taxpayers, are promoted on the basis that it is good for the country as a whole to have more profitable farms, but it doesn't lower the taxpayer's cost of food as much as the extra amount they paid in taxes. (11-12)

"Although the advocates of protection sometimes complain that the protective policies of other countries are injurious to us, they contend that up to a certain point in national development protection is everywhere beneficial to a nation and free trade is everywhere injurious. That prosperous nations have built up their prosperity by protection, and that all nations that would be prosperous must adopt that policy." Henry George. All nations could not possibly diminish imports without also diminishing exports, for the imported good of one nation is the exported good of another. By all countries producing more and more goods themselves all countries would be giving up the natural, cultural, and scientific advantages possessed by other nations—diminishing the prosperity of the world. (29-30)

Protectionists claim the tariff (taxes on imported goods) shields labor from the competition of lower paid foreign workers, and thus raises wages. "Working-men generally feel that they do not get a fair reward for their labor. They know that what prevents them from successfully demanding higher wages is the competition of others anxious for work, and they are naturally disposed to favor the doctrine or party that proposes to shield them from competition. This its advocates urge is the aim of protection. And, whatever protection does accomplish, protectionists at least profess regard for the working-classes, and proclaim their desire to use the powers of government to raise and maintain wages". H.G. (19)

Henry George believed that to admit that labor needs protection, is to acknowledge its inferiority "That freedom of trade is advocated by those who have no sympathy with labor should not prejudice us against it." H.G. (21)

In modern times the principle of free trade has been given its best trial within the United States. The U.S. constitution prohibited tariffs between the states. It enabled the country to evolve into what has been the world's largest free trade community in modern times. (15-16) Today, 2019, the European Union is the world's largest free trade zone.

Implications of Protection

"If the protective theory is valid, it must be capable of universal application. "The arguments in favor of protection must be universal to have any plausibility, for it would be absurd to assert that a theory of national growth and prosperity applies to some countries and not others." H.G. (28-29)

If the Protective theory is valid, tariffs it should be extended to include states, counties, cities, neighborhoods and even families. The various sections of every large country should institute tariffs of their own to shelter their industries from the competition of other sections. (30) Carrying this to its extreme shows the mistaken hypothesis (principle). The Protective theory is not valid. A family that made everything they could make itself instead of trading would lose much of the gains that could be obtained by trading

The protective theory implies an opposition of national interests. All countries could not export more than they import, for the exports of one country are the imports of another. In fact, by each country attempting to export more than they import, each country is attempting to get an advantage over others, and prevent others from getting an advantage over it? (31)

Most citizens of all countries are inclined to resist the payment of customs duties when the opportunity presents itself. Would you be inclined to pay a custom duty if it was only a matter of conscience? (34-35)

The reason people react this way—do not feel morally obligated to pay customs duties is that they do not feel the tax is fair. They do not believe that carrying something across a political border diminishes their moral right to own it. "...even among believers in protection, are there any who really think such evasions are wrong?" "That unscrupulous men, for their own private advantage, break laws intended for the general good proves nothing; but that no one really feels smuggling to be wrong proves a good deal." "To make that a crime by statute which is no crime in morals, is inevitably to destroy respect for law. . . "H.G. (32-34)

" In short, the aim of protection is to prevent the bringing into a country of things in themselves useful and valuable, in order to increase the rewards of making such things within the country." H.G. In the early days of the United States there were tariffs on iron, nails, glass and rope. (36)

Protectionists would only permit the importation of things that cannot reasonably be produced within a country, like chrome, bananas, and coffee into the United States. (40-43)

The Nature of Trade

A nation does not force its goods upon another nation when it exports them. There cannot be a trade unless both parties to it agree. (46)

The difference between a military blockade and a tariff is this: A blockade is intended to prevent your enemies from getting foreign products. A tariff discourages your own people from buying foreign products?

In the words of Henry George "We do to our own people with a tariff, in time of peace, what we do to our enemies, with a blockade, in time of war." We impede the importation of valuable products. (47)

Axiom # 1. Human desires are unlimited. The more people get, the more they want. It may be quality over quantity. Often people want things like knowledge, pleasure, or leisure, but humans are never completely satisfied. Even when we have had enough to eat, it is never permanent.

Axiom # 2. Humans seek to satisfy their desires with the least exertion (Economize their efforts).

The reason why people want to trade is because it enables them to get more of the things they want with less work than if they produced them directly themselves. (50-51;55) "Men of different nations trade with each other for the same reason that men of the same nation do—because they find it profitable; because they thus obtain what they want with less labor than they otherwise could." H.G.

We find the first accumulations of wealth and the beginnings of civilizations where rivers join and valleys cross: places where trade can be carried on most efficiently. It is not where nature is most generous in climate, soil and minerals, but where trade can best be carried on.

The diversity of nature impels people to trade. Regional differences in climate, soil, and mineral deposits offer special advantages in the production of different products? (52-53; supplement)

There are the advantages in developing different skills and industries in different countries. It tends to expand the total body of knowledge and skills acquired throughout the world. It increases the benefits from economies of scale? (producing many units of the same thing.) (57-58)

"...as there are differences between individuals which fit them for different branches of production, so, but to a much greater degree, are there such differences between communities. Not to speak again of the differences due to situation and natural facilities, some things can be produced with greater relative advantage where population is sparse, others where it is dense, and differences in industrial development, in habits, customs and related occupations, produce differences in relative adaptation. Such gains, moreover, as attend the division of labor between individuals, attend also the division of labor between communities, and lead to that localization of industry which causes different places to become noted for different industries. Wherever the production of some special thing becomes the leading industry, skill is more easily acquired, and is carried to a higher pitch, supplies are most readily procured, auxiliary and correlative

occupations grow up, and a larger scale of production leads to the employment of more efficient methods. Thus in the natural development of society trade brings about differentiation's of industry between communities as between individuals, and with similar benefits" H.G.

Trade between nations stimulate production. It enables each nation to produce that for which it is best equipped, increasing the rewards and therefore stimulating production.

"Any one can see what would be the result of forbidding each individual to obtain from another any commodity or service which he himself was naturally fitted to produce or perform. Such a regulation, were any government mad enough to adopt it and powerful enough to maintain it, would paralyze the forces that make civilization possible and soon convert the most populous and wealthy country into a howling wilderness. The restriction which protection would impose upon foreign trade differs only in degree, not in kind, from such restrictions as this." H.G.

Consider some of the things consumed in the U.S. that are produced in other countries. Some of them were produced in the countries they were because of the peculiarities of nature, like Chrome from South Africa or Coffee from Honduras; other things were produced where they were because of great efficiency from long experience and mutual support systems, like Swiss watches; and some things were produced where they were because of both the peculiarities of nature, long experience and mutual support systems. China has immense deposits of iron ore, and is now the world's largest producer of steel. Winemaking in parts of France is both from the climate that is very good for growing grapes and centuries of experience in making wine.

Applied Economics ~ SUPPLEMENT - LESSON II ~ SOME DEFINITIONS

TRADE - The exchange of commodities for commodities. International trade is trade between parties of different countries. Trade may be carried on directly, called **barter**; or indirectly, through the use of money; but the trade is not completed until the money is again exchanged for commodities. Ultimately, all trade is barter - the exchange of goods for goods. Trade has been called “a two-way street.” It is a voluntary, freely entered contract in which both parties benefit. Thus trade is also “a two-way profit.” Each trading party receives something more desirable than that which was given in exchange.

TARIFF - A levy or duty upon goods coming into a country, imposed by the government of that country. Also known as a customs duty. Tariffs for public revenue are usually imposed upon imports not produced in the country that levies the tariff. Protective tariffs are for the purpose of protecting producers against foreign competitors, and thus are levied on imports of goods which are also produced domestically. It is the latter type of tariff which is most in dispute. Ambrose Bierce, in *The Devil's Dictionary*, defines a protective tariff thus: “A scale of duties levied on imports, designed to protect the domestic manufacturer from the greed of his consumers.”

IMPORT An item of wealth brought into a country, usually for sale.

EXPORT - Any item of wealth sent out of a country, usually for sale abroad.

BALANCE OF TRADE - The ratio of exports to imports. A “favorable” balance of trade is said to occur when the value of a nation’s exports exceeds that of its imports, so that other nations owe it money or gold. An “unfavorable” balance of trade is said to occur when a nation imports more in value than it exports and thus owes money or gold to other nations. These are the commonly used meanings (derived from mercantilist doctrines), not those of fundamental economics.

BALANCE OF PAYMENTS - The amount of credits and debits accumulated from the total trade transactions of the people of one country with other countries, usually calculated annually.

TRADE AGREEMENTS - These cover a variety of arrangements, all of which fall short of full free trade. The government of one nation may agree with the government of another nation to allow their respective citizens to exchange certain articles of wealth. **Quotas** are negotiated limitations on imports. **Bilateral agreements** are undertaken between two nations, and **Multilateral agreement** are undertaken when several nations are involved. A **trade bloc** is a grouping of nations which have agreed to reduce or eliminate tariffs among themselves but erect a common tariff wall against other countries. Large monopolistic companies also make agreements among themselves on prices, supply, etc. These are known as **cartels**, and may occur internationally or within one nation.

TAX - A compulsory contribution levied upon persons, property or business, for the support of

government. A **direct tax** is one paid directly to the government by the party or property-owner on whom it is levied. An **indirect tax** is one which the party on whom it is levied passes it on to another party, usually in the purchase price of the item taxed. An **ad valorem tax** is one based upon the value of the thing taxed.

Name _____

Questions - Lesson II - Protection as a Policy

Lesson II based on Protection or Free Trade by Henry George, Chapters I - VII

Protection, as a national policy

1. What is meant by protection as a national policy? (28 - supplement)
2. In promoting protection as a national policy, what do protectionists contend? (28)
3. Is it correct to assume that because the United States levied high tariffs for much of its history, that the growth and prosperity of the United States were due to it? (23-24)
4. Does the prosperity of a special interest group mean prosperity for the nation? (11-12)
5. If all nations diminished imports, would it increase the prosperity of the world? ____ Could it? ____ (29-30)
6. What do protectionists claim the tariff does for labor? (19)
7. Where in modern times has the principle of free trade has been given its best trial? (15-16)

Implications of Protection

8. If the protective theory were valid, it would benefit states, counties, and even families to produce for themselves everything they could reasonably produce instead of trading. Does this show the protective theory to be not valid? (28-30)
9. Does the protective theory imply an opposition of national interests? (31)
10. Why are most citizens of all countries inclined to resist the payment of customs duties (tariffs) when the opportunity presents itself? (32-35)

11. Is the aim of protection to prevent people from bringing into the country useful and valuable things in order to increase the rewards of making such things within the country? ____ (36)

12. What kind of international trade would Protectionist permit? (40-43)

The Nature of Trade

13a). Does a nation force its goods upon another nation when it exports them?

B.) Can there be a trade unless both parties to it agree? (46)

14. What's the difference between a military blockade and a tariff? (47)

15. Why do people want to trade? (50-51; 55)

16. Are human desires unlimited?

17. Do Humans seek to satisfy their desires with the least exertion?

18. Where do we find the first accumulations of wealth, and the beginnings of civilizations?

19. How does the diversity of nature impel people to trade? (52-53)

20. When different skills and industries are developed in different countries, does it tend to expand the total body of knowledge and skills in the world? _____ (b.) Does it increase the benefits from economies of scale (producing many units of the same thing.)? _____ (57-58)

21. Does trade between nations increase the results of labor and capital (production), and therefore, encourage people to produce more?

22. List some of the things consumed in the U.S. that are produced in other countries because they had a natural advantage (cheaper cost of production due to mineral deposits, soil, or climate)?

ANSWERS - Lesson II - Protection as a Policy

Reading assignment: Protection or Free Trade, Chapters I - VII

Protection, as a national policy

1. What is meant by protection as a national policy? It consists of duties (taxes) and quotas (a limit to a certain specified numbers of designated products) imposed on imported products for the purpose of protecting producers of similar products within a country, from foreign competition. (28 - supplement)
2. In promoting protection as a national policy, what do protectionists contend? That tariffs and quotas secure a higher level of prosperity—more jobs at higher wages—within a country than would be possible with free trade (28)
3. Is it correct to assume that because the United States levied high tariffs for much of its history, that the growth and prosperity of the United States were due to it? *post hoc, ergo propter hoc*, After this, therefore because of this. Because a thing exists with or follows another thing, is not proof that it is because of that other thing. (23-24)
4. Does the prosperity of a special interest group mean prosperity for the nation? Special interest groups usually seek to benefit themselves. It is often at the expense of the rest of the nation. For example, farm subsidies, which are funded by raising taxes for everyone else, are promoted on the basis that it is good for the country as a whole to have more profitable farms. (11-12)
5. If all nations diminished imports, would it increase the prosperity of the world? Could it? No. The prosperity of the world would be diminished by reducing the importation of superior or cheaper products from other countries. "Although the advocates of protection sometimes complain that the protective policies of other countries are injurious to us, they contend that (at least up to a certain point in national development) protection is everywhere beneficial to a nation and free trade is everywhere injurious. That prosperous nations have built up their prosperity by protection, and that all nations that would be prosperous must adopt that policy." H.G. (29-30) However, prosperity cannot be achieved by restricting useful products.
6. What do protectionists claim the tariff does for labor? They claim that the tariff (taxes on imported goods) shields labor from the competition of lower paid foreign workers, and thus raises wages. "Working-men generally feel that they do not get a fair reward for their labor. They know that what prevents them from successfully demanding higher wages is the competition of others anxious for work, and they are naturally disposed to favor the doctrine or party that proposes to shield them from competition. This its advocates urge is the aim of protection. And, whatever protection does accomplish, protectionists at least profess regard for the working-classes, and proclaim their desire to use the powers of government to raise and maintain wages". H.G. (19)
7. Where in modern times has the principle of free trade has been given its best trial? Within the United States, The U.S. constitution prohibited tariffs between the states. It enabled the country to evolve into what has been the world's largest free trade community in modern times. (15-16) The U.S. was surpassed by the European Union in the second decade of the 21st century.

Implications of Protection

8. If the protective theory were valid, it would benefit states, counties, and even families to produce for themselves everything they could reasonably produce instead of trading. Does this show the

protective theory to be not valid? (28-30) Yes it would. The smaller the political entity is, the more obvious it is that the theory is not valid. "Their arguments must be universal to have any plausibility . . ." H.G. (28-30)

9. Does the protective theory imply an opposition of national interests? Yes. All countries could not export more than they import, because the exports of one country are the imports of another. In fact, by each country attempting to export more than they import, each country is attempting to get an advantage over others, and prevent others from getting an advantage over it? (31)

10. Why are most citizens of all countries inclined to resist the payment of customs duties (tariffs) when the opportunity presents itself? Because no one feels that they should pay a fine for carrying a product that they own across a national border. "...even among believers in protection, are there any who really think such evasions are wrong?" "That unscrupulous men, for their own private advantage break laws intended for the general good proves nothing; but that no one really feels smuggling to be wrong proves a good deal." "To make that a crime by statute which is no crime in morals, is inevitably to destroy respect for law..." H.G. (32-35)

11. Is the aim of protection to prevent people from bringing into the country useful and valuable things in order to increase the rewards of making such things within the country? Yes. "In short, the aim of protection is to prevent the bringing into a country of things in themselves useful and valuable, in order to increase the rewards of making such things within the country." H.G. In the early days of the United States there were tariffs on iron, nails, glass and rope. (36)

12. What kind of international trade would Protectionist permit? Only the importation of things that cannot reasonably be produced within a country, like chrome, bananas, or coffee that are not plentiful or easy to grow within the United States. (40-43)

The Nature of Trade

13a. Does a nation force its goods upon another nation when it exports them? No.

B.) Can there be a trade unless both parties to it agree? No. (46)

14. What's the difference between a military blockade and a tariff? A blockade is intended to prevent your enemies from getting foreign products. A tariff discourages your own people from buying foreign products? In the words of Henry George "We do to our own people with a tariff, in time of peace, what we do to our enemies, with a blockade, in time of war." We impede the importation of valuable products. (47)

15. Why do people want to trade? Because it enables people to get more of the things they want than if they produced them directly themselves. (50-51;55) "Men of different nations trade with each other for the same reason that men of the same nation do — because they find it profitable; because they thus obtain what they want with less labor than they otherwise could." H.G.

16. Are human desires unlimited? Yes. Human desires are unlimited. The more people get, the more they want. It may be quality over quantity. Often people want things like knowledge, pleasure, or leisure, but humans are never completely satisfied. Even when we have had enough to eat, it is never permanent.

17. Do humans seek to satisfy their desires with the least exertion? Yes. It is axiomatic that humans seek to satisfy their desires with the least exertion. An axiom of human behavior is a behavior that is considered natural to all humans in general.

18. Where do we find the first accumulations of wealth, and the beginnings of civilizations? It is not where nature is most generous in climate, soil and minerals, but where rivers join, valleys cross, and trade can be carried on most efficiently.

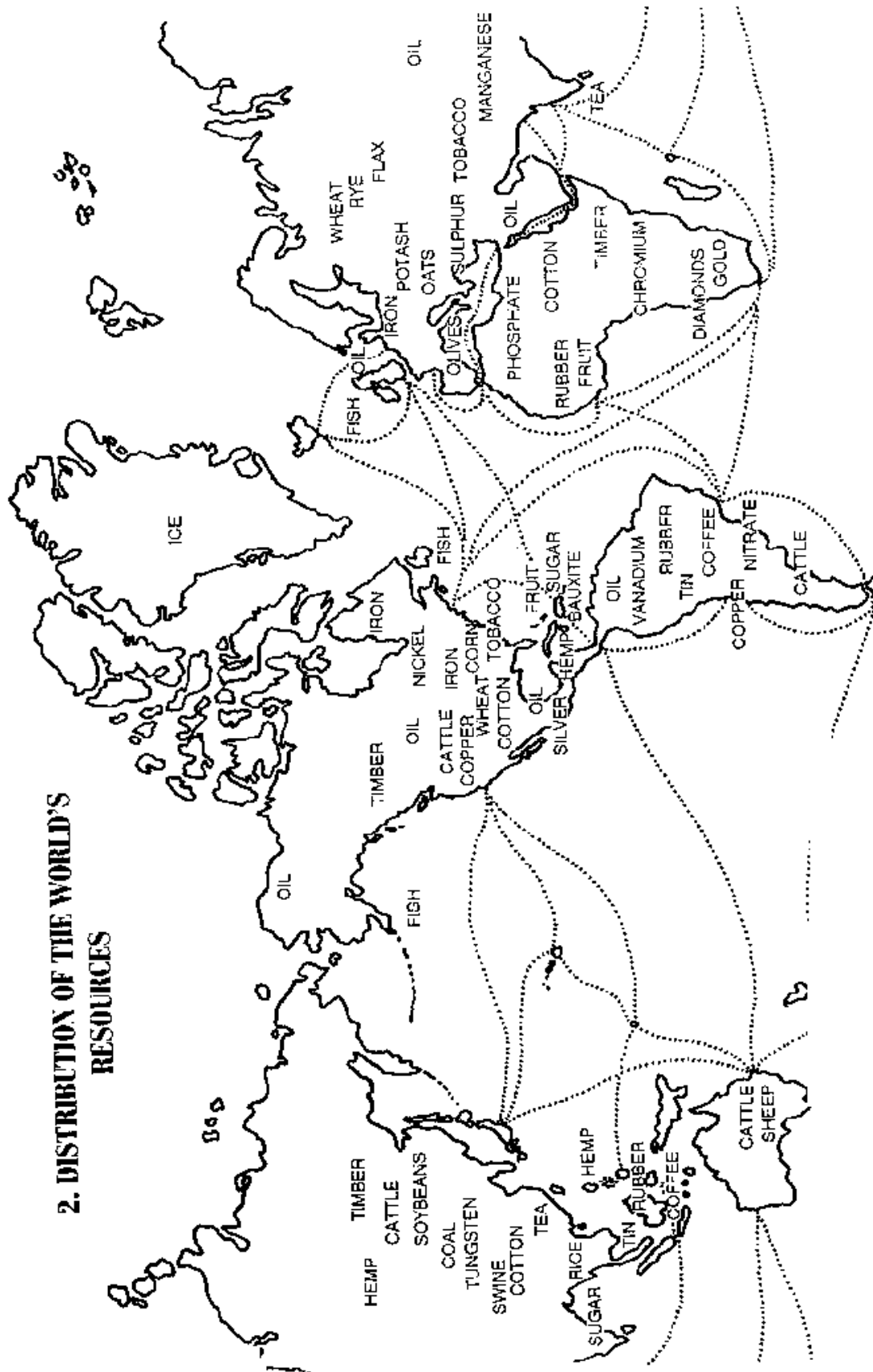
19. How does the diversity of nature impel people to trade? Regional differences in climate, soil, and mineral deposits offer special advantages in the production of different products? (52-53;)

20. When different skills and industries are developed in different countries, does it tend to expand the total body of knowledge and skill in the world? Yes, it tends to expand the total body of knowledge and skills acquired? It increases the benefits from economies of scale. (producing many units of the same thing.) (57-58)

"...as there are differences between individuals which fit them for different branches of production, so, but to a much greater degree, are there such differences between communities. Not to speak again of the differences due to situation and natural facilities, some things can be produced with greater relative advantage where population is sparse, others where it is dense, and differences in industrial development, in habits, customs and related occupations, produce differences in relative adaptation. Such gains, moreover, as attend the division of labor between individuals, attend also the division of labor between communities, and lead to that localization of industry which causes different places to become noted for different industries. Wherever the production of some special thing becomes the leading industry, skill is more easily acquired, and is carried to a higher pitch, supplies are most readily procured, auxiliary and correlative occupations grow up, and a larger scale of production leads to the employment of more efficient methods. Thus in the natural development of society trade brings about differentiation's of industry between communities as between individuals, and with similar benefits" H.G.

21. Does trade between nations increase the results of labor and capital (production), and therefore, encourage people to produce more? Yes. By enabling each nation to produce that for which it is best equipped, it increases the rewards and therefore encourages production.

23. List some of the things that are produced and exported from countries because they have a natural advantage (Cheaper cost of production due to mineral deposits, soil, or climate). Jamaica produces and exports aluminum, largely because they have an abundance of Bauxite, the key ingredient used to make it. Chile exports nearly 33% of the worlds copper, because of its great abundance. The US exported 2.5 billion bushels of maize (corn). The soil and climate are conducive in the northern and mid-western states (corn belt).



This is a summary of Protection of Free Trade, Chapters VIII - XII

Production includes all actions which help in getting a natural resource to the consumer in the desired form. Therefore, exchange is part of production. As producers, Merchants and Middlemen add to the sum total of satisfaction. (61 - 66) Middlemen play an important role in production. They store products and makes them available in small quantities when and where they are wanted at the convenience of the consumer (preferred by most consumers over buying directly from factories). They act as a stabilizer of supply and demand in the market. They are indeed, producers.

The original purpose of tariffs was to raise revenue. The tariff for protection came later. (69) The difference between a tariff for revenue and a protective tariff is that a tariff for revenue depends upon products coming into a country, while a tariff for protection aims at keeping products out. The more a protective tariff succeeds in discouraging imports, the more it reduces revenue. The more a revenue tariff succeeds in generating revenue, the less it discourages imports. They differ only in their purpose. The two different kinds of tariffs are working at cross purposes. (69, 70, 80)

Direct and Indirect Taxes

Direct taxes are paid directly by the taxpayer to the government, like the Real Estate tax, or corporate income tax. Indirect taxes are paid to an intermediary like a merchant who collects a sales tax, and then passes it on to the government. Gasoline taxes are administered differently. They are paid by the oil company before the gasoline leaves the refinery. Alcohol and cigarettes are examples where the manufacture buys tax stamps and affixes them to the product before it leaves the distillery or cigarette factory. Import taxes are paid when possession of the products are taken by the merchant. (70-73)

There are advantages and disadvantages with indirect taxation. The advantage to the government is that indirect taxes are difficult to resist paying. If you want to buy the good or service, you must pay the tax or go without the good or service. In some cases the amount of the tax is concealed from the consumer who pays it. Indirect taxes yield large revenues, but they cost the taxpayer far more than they yield the government. They lend themselves to corruption, tempting the private collectors to keep some of the tax money they collect.

Indirect taxation bears most heavily on the lower classes. The greatest revenues are generally not derived from expensive items consumed only by the rich, but by the products consumed by the largest group of citizens, which include the poor? In Pennsylvania and many other states, food, clothing and shelter are exempt from the sales tax. Therefore, it bears much less heavily on the poor. It also yields less revenue at the same rate as the flat income tax and the wage tax. One rate income taxes, especially when there are no deductions, like those levied on wages bare most heavily on the poor. (71-72)

Throughout much of U.S. history tariffs were relied on for federal revenue. In recent times import taxes, except for certain products, have been minimal. The federal income tax which supplanted tariffs for revenue, is not only levied on income from land, but in part on wages and interest. Therefore, when wages tend to a minimum, it increases the cost of production. However, it does not divert labor and capital to grossly less efficient applications the way protective tariffs do.

Indirect taxes like those on imports, gasoline, alcohol, and tobacco have a very negative affect on small business. The taxes have to be paid before the retailer receives the product. This increases

the necessary investment in inventory. And, by requiring capital to pay for the tax as well as the product, it discourages small business, and makes it hard for them to compete with big business. For example, the tax on cigarettes is far more than the cost of the cigarettes, so it grossly increases the amount of capital necessary to engage in selling cigarettes to the consumer. It also increases the price of the commodity more than the amount of the tax. That is because the merchant, having invested in the tax, expects to get a return on his investment in the tax as well as the product. So, the tax costs the consumer measurably more than it yields the government in revenue. (75-76)

Domestic Industries

Besides tariffs, other methods could be used to protect domestic industries. 1. the destruction of imports. 2. Bounties (subsidies) paid to domestic producers. And 3. Drawbacks (bounties paid on exports) (81-85)

By comparing the bounty system with the protective system we can see that the bounty (subsidy) system would 1. Entail a definite and visible cost. 2. Aside from increasing the general level of taxes, would not discourage or handicap other industries that were dependent upon the use of protected products. 3. When its need, if any, were gone, it could more readily be revoked. However, both tariffs and bounties divert labor and capital from their most efficient applications, which diminish the total production of wealth, and lead to corruption. (82-83)

By increasing prices, and indirectly increasing the profits of home industry, the advocates of protection claim their tariff will attract new producers and encourage home industry. (87-89) However, the most certain way to determine what industries are most desired by the people of any community is by an industry's ability to sustain itself (make a profit) in a free market. (96-97)

One of the effects of protecting infant industries is that they often remain infant industries. The Textile industry was considered an infant industry during the early years of the United States. After more than 200 years of protection, it is still unable to compete in the free market. (98)

Exports and Imports

What is the effect of keeping home markets for home producers? When countries refuse to take advantage of the productions other countries by limiting (restricting) themselves to their own productions, it diminishes the benefits of regional differences in soil, minerals and climate. There are superior skills and knowledge of many different kinds in different countries. By trading, all countries get the benefit of each and every different kind of skill and knowledge. But, by confining themselves to the products of their own country, they forfeit all the superior skill and knowledge possessed by the people of other countries. (103-106) The consequences of restricting trade between the people of two different countries is the same as would be the consequences of restricting trade between the people within a country. It ultimately diminishes the level of human satisfaction. (105-111)

Some times even though a product can be produced more efficiently in one country than another there is a benefit from trading. Suppose blue jeans could be produced in the US a little more cheaply than in Mexico—but, computer programs could be produced much more cheaply in the US than in Mexico. By trading computer programs made in the US for blue jeans made in Mexico, the people of the US would get more blue jeans than they could have produced themselves with the same amount of labor and capital. While at the same time, the people of Mexico would have gotten

more computer programs than they could have produced themselves with the same amount of labor and capital. It is called the Law of Comparative Advantage.

“When at any given time, in any given place, a certain commodity cannot be produced for as low a price as it can be imported for, this is not necessarily proof that it would take more labor to produce it in that given place, but it is proof that labor there and then can be more profitably employed. And when industry is diverted from more profitable to less profitable occupations, though the capital and labor so transferred may be compensated by duties or bounties, there must be a loss to the people as a whole.” H.G. This refers to the Law of comparative advantage, and will be explored in lesson IV.

The common meaning, of “a favorable balance of trade” is when the value of exports exceeds the value of imports. The common meaning, of an “unfavorable balance of trade” is when the value of imports exceed the value of exports. However, it is easy to see why this cannot really be true. (112) Using this common meaning, if everything produced within a country was exported, and nothing was imported, that would be the most favorable balance of trade possible. Yet, instead of prosperity, the people would starve. (112-114)

International trade, like domestic trade, is the exchange of valuable things. No one would engage in international trade if it wasn’t profitable. Each party is giving the thing they value less for the thing they value more; just as in a profitable trading voyage the return cargo plus the cost of transportation must exceed in value the cargo carried out. We may receive products from one country in payment for products sent to another country, but when the total value of imports significantly exceed its total value of exports, there appears to be an imbalance of trade. We know intuitively that no one is giving things away. Some of the things that have been traded for imports remain within the country; this creates a disparity between the value of imports and the value of exports. In other cases, rather than products being traded, people in one country have claims on the products that are being made in another country. As those products are received to satisfy the claims, it increases imports without increasing exports.

If international trade consisted only of products being sent back and forth between countries, the only way that the value of exports could exceed the value of imports would be for products to be sent from places where they are relatively dear to places where they are relatively cheap, like sending coffee grown in greenhouses in New England to Guatemala where the soil and climate are conducive to coffee growing. This, of course, is never the case.

The large imbalance caused by a greater value of products being imported than exported happens in two primary ways. The first way is for the people of one country to make investments in another country. Let's say that people in Japan send products to the United States. Instead of an equal value of American products going back to Japan, they are exchanged for assets which remain in the United States. It could be an auto factory, Stocks, Corporate or Government bonds, or Real Estate. This increases US imports, without increasing US exports.

The second way is for investors in one country to take profits from previous investments in another country. Let's say that Americans invested in a Chinese phone maker during the last decade; now they are taking profits. Phones are coming into the United States, but no products are leaving in exchange. The Chinese phones are sold, and what is received in exchange for some of the phones is

given to an American as a return on his investment. This increases US imports without increasing US exports. If he spends the money in a restaurant, in effect, the phones were traded for a meal prepared by Americans. However, since the food didn't leave the country, it doesn't count as an export.

If we stopped imports entirely, there are still some exports that would continue to leave the country. They would accrue to foreigners, representing property passing by gift or inheritance; some would be accounted for by Americans in other countries, who, by exchanging American money, are exchanging American products for the goods and services consumed abroad; and the returns from bonds, stocks and real estate acquired in the past (interest and land rent). (119-122)

Some of these exports represent a return on the capital which increases productivity more than the return on the capital. Examples are the foreign owned factories (buildings and machinery) that produce cars in the US, or highways which add even more to the Gross Domestic Product than the products that are sent abroad as interest on the bonds. By contrast, some of these exports represent a payment for the ownership of land and other monopolies that were previous investments. Whether it is farmland, mineral land, the land under an auto assembly plant, or the land under buildings in a city, The products that are exported as rent, take without giving an equal value, and exploit the people of the country.

None-the-less, any restriction of products coming into a country will diminish the demand for all the things for which they might be traded, which largely include the products going out of the country.

“Were we to prevent importations absolutely, we should still have to export, but instead of it being evidence of increasing prosperity, those products which represented rent [from Land], would be a drain on our national wealth like that which impoverished Ireland [in the 19th century].” Henry George.

Under Imperialism, each empire takes far more from its subordinate countries then it gives in exchange. Although this is brought about by military force, the result would not be any different if all the land in a subordinate country was owned by foreigners. It makes no difference if the person who owns the land on which you live and work is a resident of the same country. You produce and he consumes. However, if he is a resident of another country, his income represented by the products leaving the country are counted as an export and contribute to what is commonly called a favorable balance of trade. (121-122)

SUPPLEMENT - LESSON III

1. FREE TRADING AREAS

As noted in Protection or Free Trade (pp. 15-16) The principle of free trade was given “the greatest extension it has had in modern times” in the United States, as the Federal Constitution prohibits tariffs between the states. Prior to 1789 there had been tariffs between the states.

Now days, most nations realize that it is advantageous to have a trading area greater than their own borders and they have formed trading blocs, customs unions, and free trade areas. This is not really “free trade”, as trade is regulated and there is usually a common trade harrier against outside countries. Following is a list of various groups:

According to the US Department of Commerce, Free Trade agreements have reduced barriers and opened foreign markets to US exporters. The United States has Free Trade Agreements with the following 12 countries individually: Australia, Bahrain, Chile, Colombia, Israel, Jordan, Korea, Morocco, Oman, Panama, Peru, and Singapore.

The United States has Free Trade Agreements with the following eight countries as part of Dominican Republic Central American Free Trade Agreement DR-CAFTA: Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, & Nicaragua; or The North American Free Trade Agreement NAFTA: Canada & Mexico.

According to the World Economic Forum, there are around 420 regional trade agreements in the world, but not all are Free Trade agreements

The Association of Southeast Asian Nations Free Trade Area (AFTA) was signed in January 1992. The original members were Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand. Four countries have subsequently joined: Vietnam, Laos, Myanmar and Cambodia. The bloc has largely removed all export and import duties on items traded between the nations. It has also entered into agreements with a number of other nations, including China, eliminating tariffs on around 90% of imported goods.

The Common Market of Eastern and Southern Africa (COMESA) There are 19 member countries: Libya, Egypt, Sudan, Eritrea, Ethiopia, Rwanda, Uganda, Kenya, Democratic Republic of Congo, Burundi, Zambia, Malawi, Zimbabwe, Swaziland, Mauritius, Mauritius, Madagascar, Seychelles, Comoros. Formed in December 1994, the organization aims to overcome trade barriers.

The Europe Union EU is a single market with no tariffs, quotas or taxes on trade; and it allows the free movement of goods, services, capital products, and people.

The EU regulations are on everything from working hours to packaging. This is an attempt to create a level playing field, which is much more than is required by member nations of a free trade zone.

Today, the EU is the world’s largest economy. It both exports and imports more than any other organized trading group in the world. The EU has free trade agreements with other nations, including South Korea, Mexico and South Africa.

If and when the Trans-Pacific Partnership TPP is ever agreed to, it will likely be the worlds largest free trade agreement, The following countries are tentative members: US, Canada, Mexico, Brunei, New Zealand, Peru, Malaysia, Australia, Chile, Singapore, Japan, and Vietnam are thought to account for 40% of the worlds goods and trade already.

The Transatlantic Trade and Investment Partnership TTIP is an agreement currently being negotiated between the EU and the US. If instituted, it would itself become the world’s largest trade agreement, and cover 45% of global production.

Name _____

Questions - Lesson III Trade and Tariffs

Reading assignment: Protection of Free Trade, Chapters VIII - XII

1. Is exchange part of production? (61 - 63)
2. What part does the “middleman” (retail seller) play in production? (64 - 66)
3. What was the original purpose of tariffs, revenue or protection? (69)
4. What is the difference between a tariff for revenue and a protective tariff? (69, 70; 80)

Direct and Indirect Taxes

5. Define a direct tax and give an example of one. (70-73)
6. Define an indirect tax and give an example of one. (70-73)
7. What are the advantages and disadvantages of indirect taxation?
8. On what class of people does indirect taxation bear most heavily? (71-72)
9. How does indirect taxation like a tariff affect small business? (75-76)

Domestic Industries

10. Besides tariffs, what other methods could be used to protect domestic industries? (81-85)
11. Compare the bounty system with the protective tariff. (82-83)
12. How do the advocates of protection claim their tariff will encourage home industry? (87-89)

13. In determining what industries are desirable in any community—should they be determined by the political process or by the ability of producers to make a profit in the free market? (96-97)

14. Is it true that even after decades, infant industries that are protected, are rarely able to make a profit without protection? (98)

Exports and Imports

15. If home markets were kept for home producers, would the majority of people benefit? (103-106)

16. What is the common meaning, of "a favorable balance of trade?

17. What is the common meaning, of "an unfavorable balance of trade? (112)

18. Using this common meaning, if everything produced within a country was exported, and nothing was imported, which would be the most favorable balance of trade possible. What would happen to the people in that country? (112-114)

19. Would there be International trade if it wasn't profitable to both parties? (116)

20 Explain the two primary ways a country could import more than it exports for many years.

21. What effect would restricting products coming into a country likely to have on products going out of that country?

22. If we stopped imports entirely, what exports would continue to leave the country? (119-122)

23. Name a foreign investment that could be of mutual benefit to the people who invested, as well as the people of the country that it was invested in.

24. Name a foreign investment that would exploit the people of the country in which the investment was made.

Answers - Lesson III - Trade and Tariffs

Reading assignment: Protection of Free Trade, Chapters VIII - XII

1. Is exchange part of production? Yes. Production includes all actions which help in getting a natural resource to the consumer in the desired form. (61 - 63) Merchants and Middlemen add to the value of products (64 - 66)
2. What part does the “middleman” (retail seller) play in production? The middleman stores products and makes them available. He enables consumers to buy them in small quantities when and where they are wanted at their convenience. (preferred by most consumers over buying directly from factories) He acts as a stabilizer of supply and demand in the market. He is a producer.
3. What was the original purpose of tariffs, revenue or protection? To raise revenue. Tariffs for protection came later. (69)
4. What is the difference between a tariff for revenue and a protective tariff? A tariff for revenue depends upon products coming into a country. A tariff for protection aims at keeping products out. The more a protective tariff succeeds in discouraging imports, the more it reduces revenue. The more a revenue tariff succeeds in generating revenue, the less it discourages imports. They differ only in their purpose. The two different kinds of tariffs work at cross purposes. (69, 70; 80)

Direct and Indirect Taxes

5. Define a direct tax and give an example one. Direct taxes are paid directly by the taxpayer to the government, like the Real Estate tax, or corporate income tax (70-73)
6. Define an indirect tax and give an examples one. Indirect taxes are paid to an intermediary like a merchant who collects a sales tax. Or a gasoline company which pays the tax before the product is sold (70-73)
7. What are the advantages and disadvantages of indirect taxation? It's difficult to resist paying indirect taxes. If you want to buy the good or service, you must pay the tax. However, you do not usually know how much tax you are paying in indirect taxes like tariffs, gasoline or alcoholic beverages? They yield large revenues, but it's expensive for governments to make sure that the private tax collectors are paying the government. They tempt corruption.
8. On what class of people does indirect taxation bear most heavily? The greatest revenues are generally not derived from expensive items consumed only by the rich, but by the products consumed by the largest group of citizens, which include the poor. In Pennsylvania, where food, clothing and shelter are exempt from the sales tax, it bears much less heavily on the poor. At the same rate it also yields less revenue than the flat income tax or the earned income tax (wage tax). (71-72)

Throughout much of U.S. history tariffs were relied on for federal revenue. In recent times tariffs (import taxes), except for certain products, have been minimal. The federal income tax which supplanted tariffs for revenue, is not only levied on income from land, but in part on wages and interest. Therefore, it increases the cost of production. However, it does not divert labor and capital to grossly less efficient applications the way protective tariffs do.

9. How does indirect taxation like a tariff affect small business? Some taxes, like tariffs, alcohol, tobacco, and gasoline, have to be paid before the retailer receives the product. This increases the necessary amount of investment in inventory, so it discourages small business? (75-76)

Domestic Industries

10. Besides tariffs, what other methods could be used to protect domestic industries? 1. the destruction of imports. 2. Bounties (subsidies) paid to domestic producers. And 3. Drawbacks (bounties paid on exports) (81-85)

11. Compare the bounty system with the protective tariff. In comparison to the protective tariff, the bounty (subsidy) system would 1. Entail a definite and visible cost. 2. Aside from increasing the general level of taxes, it would not discourage or handicap other industries that were dependent upon the use of protected products. 3. When its need, if any, were gone, it could more readily be revoked. (However, both tariffs and bounties divert labor and capital from their most efficient application and lead to corruption) (82-83)

12. How do the advocates of protection claim their tariff will encourage home industry? By increasing prices, and indirectly increasing the profits of home industry, the advocates of protection claim their tariff will attract new producers and encourage home industry. (87-89)

13. In determining what industries are desirable in any community—should they be determined by the political process or by the ability of producers to make a profit in the free market? By the ability of producers to make a profit in the free market. (96-97) In that way, what is produced is decided by what consumers are buying and what they are willing to pay.

14. Is it true that even after decades, infant industries that are protected are rarely able to make a profit without protection? They generally remain infant industries. The Textile industry was considered an infant industry during the early years of the United States. After more than 200 years of protection, it is still unable to compete in the free market. (98)

Exports and Imports

15. If home markets were kept for home producers, would the majority of people benefit? No. It diminishes the benefits from regional differences in soil, minerals and climate, the division of labor and economies of scale. (103-106) It is similar to an individual who refuses to trade with others. (105-111) It would prevent people from enjoying the benefits of a Comparative Advantage.

16. What is the common meaning, of "a favorable balance of trade? "When the value of exports exceeds the value of imports. However, it is easy to see why this cannot really be true.

17. What is the common meaning, of "an unfavorable balance of trade? When the value of imports exceed the value of exports. However, it is easy to see why this cannot really be true. (112)

18. Using this common meaning, if everything produced within a country was exported, and nothing was imported, which would be a most favorable balance of trade, What would happen to the people in that country? They would starve.

19. Would there be International trade if it wasn't profitable to both parties? No. (116)

20. Explain the two primary ways a country could import more than it exports for many years. The first way is for the people of one country to make investments in another country. Let's say that people in Japan send products to the United States. Instead of an equal value of products going back to Japan, they are exchanged for assets which remain in the United States. It could be a factory, stocks, bonds (corporate and government), and Real Estate, etc. This increases Japanese exports, without increasing Japanese imports.

The second way is for investors in one country to take profits from previous investments in another country. Let's say that Americans invested in China during the last decade and now they are taking profits. Chinese products are sold in the US, and the money that is received in exchange is kept by an American. Products are coming into the U.S. but no products are leaving in exchange. This increases US imports without increasing US exports.

21. What effect would restricting products coming into a country likely to have on products going out of that country? It would tend to diminish the value of products going out of the country. (116) Sometimes imports are exchanged for things like land, buildings, and machinery that remain in the country. Sometimes imports are exchanged for future obligations. However, the less that is imported the less demand there is for things that could be exported.

22. If we stopped imports entirely, what exports would continue to leave the country? Some of those exports that would continue to leave the country would accrue to foreigners, representing property passing by gift or inheritance; some would be accounted for by Americans in other countries, who, by exchanging American money, are exchanging a claim on American products for the goods and services consumed abroad; and some would be the returns from bonds, stocks, and real estate acquired in the past—interest and land rent. (119-122)

23. Name a foreign investment that could be of mutual benefit to the people who invested, as well as the people of the country it was invested in. A foreign investment in an auto assembly plant (building and machinery) might increase the output of the workers more than the cars that are sent to the investor in the other country as a return on the investment—a mutual benefit. As long as the interest on bonds that financed a bridge was less than the increase in productivity that resulted from the bridge, it would be of mutual benefit to the people of the United States and the foreign investors who financed the bridge by buying the bonds.

24. Name a foreign investment that would exploit the people of the country in which the investment was made. Land. Whether it is farmland, mineral land, the land under an auto assembly plant or the land under the buildings in New York, the investment in land transfers ownership of the natural opportunity that was already here. Without adding any benefit, it takes the products of labor as rent, therefore exploiting the workers of the country.

Narrative - Lesson IV - Money And Profits

Based on: Protection of Free Trade by Henry George, Chapters XIII - XVIII

The Function of Money

The idea that a nation loses from importing products and gains from exporting products arises from a confusion that stems from the use of money. When nations are thought of as people or merchants, then imports are thought of as the products they buy and exports are thought of as the products they sell. the lower the value of the products they buy, and the higher the value of the products they sell, the greater their profits. (123-124)

Money is not directly used to satisfy desires. It can't be eaten, worn, lived in etc. Money is used to buy things. It is a medium of exchange. (125-127) A dollar is never worth more than a dollar's worth of bricks or anything else. However, the person who has bricks can only exchange them with a person who wants bricks; but, because the person who has money can exchange it for anything he may want, the money seems more valuable than any particular product of equal value.

In past centuries when life and property were less secure, and the people of different nations did not trust each other or have any way to enforce promissory documents, it was important to have something readily concealed, conveniently carried, speedily exchanged, and universally accepted. Gold and silver fit these requirements and was considered by many to be the only real wealth? (127) The size and weight of gold and silver is small compared to their value; their quality does not deteriorate, and can easily be determined. For centuries gold and silver were the standard medium of exchange, the measure, and store of value. Kings amassed a store of gold and silver for emergencies in case it was needed to pay a ransom or equip an army.

If nations were thought of as merchants competing with one another for the gold of the world, it would clearly support the protective theory. Discourage imports, except for gold. (128) Over the centuries, gold more than most other products has remained scarce and maintained a high value. However, in the short term, the value of gold fluctuates greatly. When uncertain or unfavorable economic conditions arise, people have consistently turned to gold as a store of value. As more people try to buy gold its value goes up. When inflation is low, and interest rates are high, people are inclined to sell gold and buy stocks or bonds which yield a return, and the price of gold goes down.

As civilization and institutions advanced, the use of gold and silver were superseded by instruments of credit — bills of exchange, letters of credit, notes, drafts and credit transfers etc. (125) Today, global currencies, better known as reserve currencies are used in international trade. US dollars are the most popular (in 2019), but the Euros and the yen are also used as reserve currencies.

Compare the sales and purchases of a merchant with the imports and exports of a nation. In reality, it is the money received from a sale that is comparable to the imports of a nation. The products sold by a merchant would be equal to the exports of a nation. Keep in mind that the money received by the merchant is a claim on other products or things, not the final object sought in delivering the product which is sold. (131-132) It is not until the money is spent, and the thing is received in exchange for the money that the transaction is complete and the values given and received can be compared.

To paraphrase Henry George, being accustomed to measure the profits of business men by the excess of their sales over their purchases, they assume that the exports of a nation are equivalent to the sales of a merchant, and the imports of a nation are equivalent to the purchases of a merchant. This easily leads to the conclusion that the greater the amount of exports and the less the amount of imports, the more profit a nation gets by its trade.

Protection and Profits

Working people in the US are inclined to support protection because they believe that the products of low-paid labor in other countries can undersell the products of high-paid labor in the US when competition is permitted. (135)

It should be noted that it has not only been from low-wage countries like Mexico and Indonesia, but also from high wage countries like Japan and Germany that the US used tariffs for protection. This occurred when high-wage countries were able to sell products cheaper than American companies. (136)

Wages and the cost of production

“The truth is, that a low rate of wages does not mean a low cost of production, but the reverse. The universal and obvious truth is, that the country where wages are highest can produce with the greatest economy, because workmen have there the most intelligence, the most spirit and the most ability; because invention and discovery are there most quickly made and most readily utilized. The great inventions and discoveries which so enormously increase the power of human labor to produce wealth have all been made in countries where wages are comparatively high.” H.G. (138) So, if in any country there were a general increase of wages, the immediate effect would only be so to alter the distribution of wealth that more of the aggregate product would go to the laboring-classes and less to those who live on the labor of others. The result would be that more of the cheaper luxuries would be called for and less of the more costly luxuries. But productive power would in no wise be lessened; there would be no less to export than before and no less ability to pay for imports. On the contrary, some of the idle classes would find their incomes so reduced that they would have to go to work and thus increase production, while as soon as an increase in wages began to tell on the habits of the people and on industrial methods, productive power would increase.

In the late 1980s Mexico produced about \$4,000 per person each year, while the U.S. produced over \$25,000 per person. That greater productivity is more than enough to pay much higher wages and the return on far greater value of the capital (buildings and machinery) per worker.

There is another way to evaluate the question of whether low paid labor is necessarily a cheaper cost of production. If we take the total value of things produced, and subtract all the wages paid to labor; all the interest paid to capital; all the wealth paid to people with monopolies (franchises, patents, licenses, copy rights), and all taxes at all levels of government, it all adds up to the total cost of production. The difference between the cost of production and the value of the wealth produced, is the rent of land. Wherever the cost of production is low, the value of land is high and visa versa. Japan has higher land values per person than Mexico. Therefore, in spite of its higher wages, it has a lower cost of production.

Comparative advantage

Even if one country could produce all things better than another country, it would still be mutually profitable for that country and its neighbors to trade with one another.

(145-147) Suppose a 1st class carpenter could perform every job faster than a 2nd class carpenter; he could build the stair case and figure the pitch of the roof nearly 10 times as fast; he could frame the windows and hang the doors over 5 times as fast; he could saw the boards and hammer the nails, even sweep the floor, a little bit faster. So, by the 1st class carpenter doing the most difficult jobs, and the 2nd class carpenter doing the easiest jobs, they could build two houses much faster than they could each build one house working independently. Not only would the 2nd class carpenter benefit from the cooperation, but so would the 1st class carpenter enjoy a larger reward than he would by building a house alone.

The same thing would apply to a nation. High tech products are sent to the less productive country and low tech products are sent to the more productive country. This means that one country can produce all high tech products for export, and get more low tech products than it could have produced itself with the same amount of labor and capital—while the less productive country, by producing low tech products for export, can get far more high tech products than it could have produced itself with the same amount of labor and capital. This is called The Law of Comparative Advantage. See supplement.

A country that allowed its citizens the freedom to trade with people of other countries would still enjoy much of the benefits even if all other countries restricted their citizens from doing the same. (149-150) The incentive for the people of other countries to trade would be diminished by the amount of their tariffs, but there would still be many products that, in spite of the tariffs, would be beneficial to exchange. So, for a country to penalize their people by adding a tariff to the price of everything they get in exchange because other countries have penalized their people by adding a tariff to the price of everything they received in exchange would double the penalty, and divert far more production from what labor and capital produce most efficiently to what is more costly to produce, but more profitable for the owners of the protected industries.

Encouragement of manufactures

In the natural order of things, industries are not established first, and then population is drawn to them. It is just the reverse. As population increases and the infrastructure is built with roads and bridges, utilities and public service, it enables greater and more efficient divisions of labor and economies of scale. Capital and industry are drawn to it. The protectionists are confusing effect with cause when they say “Manufacturing countries are always rich countries. Countries that produce only raw materials are always poor. Therefore, if we would be rich we must have manufactures, and in order to get manufactures we must encourage them.” H.G.

Legislative encouragement or restriction of any one industry affects the production of wealth by increasing the rewards for producing protected products. It diverts labor and capital from producing things they would produce more efficiently, and that reduces the total production of a nation.

The real cost of protective duties to the people at large are as follows: 1. The tax upon imported goods, plus the profits upon the tax, plus the attendant corruption. And, 2. the higher price paid for products of the protected home industry. (167)

In the long run protection does not always succeed in increasing the profits of those industries which it is designed to encourage. The tariff increases the price of a product, and everything that the product is a part of, like tariffs on steel increase the price of cars. When many different products are protected, the increased prices reduce demand for the protected products. Therefore beyond a certain point, the tariff, by reducing demand, for cars, reduces the demand for steel to make them out of, and delivers no greater profits to the industries (like steel) it is designed to encourage? (166-169)

Any business open to domestic competition cannot gain a permanent advantage from protective tariffs. (170-172) (180) Suppose that the average return for industrial investment was 15%. Then a large tariff was placed on foreign cars. As a result of the tariff, imported cars cost so much, that people started buying US made cars. More US made cars were selling at higher prices (they still cost less than foreign cars plus the tariff). As a result, US automobile production was now yielding a 20% return on their investment. At that point, other big corporations would be drawn to the auto making business in pursuit of the 20% return on their investment. They could buy stock in GM or Ford, or start their own company making cars.

As more American cars are made, the supply of cars to be sold increases the competition, and the price starts to fall. Investors will continue investing in the production of cars, until the returns (profits) become no greater than other investment opportunities. Of course patents and experience will give GM and Ford advantages over new companies, but no business open to domestic competition can gain a permanent advantage from protective tariffs. Although the profits of producers will be no higher in domestically competitive protected industries, higher consumer prices will reflect the less efficient domestic producers over the foreign competitors. (170-172) (180)

In the long run, tariffs only result in greater profits for those industries in which there cannot be domestic competition. Natural resources like iron and copper, or products that are protected by domestic patents are the only industries that ultimately enjoy higher profits as a result of tariffs and protection in general. For example, suppose instead of cars, we put a large tariff on steel. The demand for land that contained iron ore would increase—but since land cannot be produced, any greater profits from the increased demand for domestic iron ore would go to the owners of the land that contains iron ore. (171)

The most fundamental monopoly is Land.

The larger profits resulting from protection in monopolistic industries do not go to the producers. Instead, the larger profits from tariffs and quotas go to landowners and other monopolists like those that have patents on machinery and consumer goods.

Protection has retarded production by increasing the price of imports. By increasing the profits of domestic production, it diverts labor and capital from producing the things that they produce most efficiently to making things that the people of other countries make more efficiently and cheaper. This reduces the total production of wealth.

Let's say that prior to any tariffs or quotas, the U.S. imported steel from Germany in exchange for wheat, which the U.S. produces more efficiently. Next let's say that a tariff or a quota is placed on German steel. The higher price encourages American steel companies to produce more steel, and the price of land that contains iron ore increases in value. Because the U.S. is no longer producing wheat to export in exchange for steel, the value of land that grows wheat decreases in value. So, to a large extent, what the owners of land that contains iron ore gain, the owners of land that grows wheat will lose. However, because the United States grows wheat more efficiently than it makes steel, the aggregate production of the country is diminished. (The G.D.P. falls)

This reduction in productivity may be offset by new inventions, or new discoveries. However, in the absence of a free land alternative, any decrease in productivity reduces the rent of land. This is the same principle which, in the absence of free land, allocates all increases in productivity to the rent of land. When the owners of idle land do not lower prices in harmony with the decrease in land rent, land cannot be purchased, new jobs cannot be created, and a recession results.

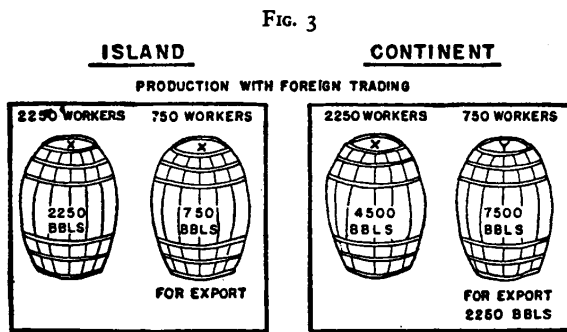


Fig. 3 represents the application of the labor of 3000 workers in each country with foreign trading in mind. On the island no labor is applied to the production of Y; instead, 250 workers are added to those producing X for home consumption, and 750 workers produce X for export. On the continent 250 workers are shifted from X production to Y production, 225 of whom produce for export. (cf. Fig. 2 and Fig. 3)

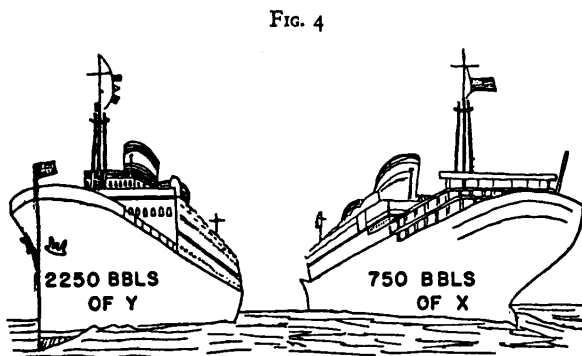


Fig. 4. The trading takes place. The island ships 750 barrels of X to the continent, and in exchange the continent ships 2250 barrels of Y to the island.

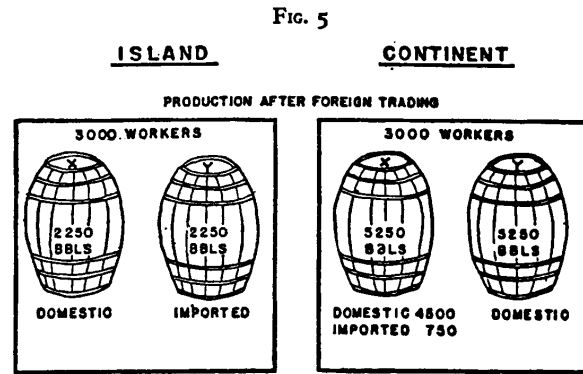


Fig. 5 Represents the effect of the trading. Each country has employed the same 3000 workers, but instead of making the mistake of producing everything "here at home," they did the sensible thing and produced more of the most profitable and less of the least profitable and traded their surplus. It may seem strange to those who have been misled by the fallacious propaganda of protective-tariff advocates that trading between two countries, one of which produced everything cheaper, could be profitable to both countries. Both the islanders and the continentals have 250 barrels of X and 250 barrels of Y more than they would have had with the same amount of labor, had there been no trading. (cf. Fig. 2 and Fig. 5)

Student _____

Questions - Lesson IV - Money And Profits

Based on Protection of Free Trade, Chapters XIII - XVIII

The Function of Money

1. How does the idea arise that a nation loses from importing products and gains from exporting them? (123-124)

2. What is the function of money? (125-127)

3. As civilization advances, what supersedes the use of gold and silver in international trade? (125)

4. How did the habit of thinking of gold and silver as the only real wealth arise? (127)

5. How does this idea help support the protective theory? (128)

6. What economic conditions tend to affect the fluctuation of the price of gold?

7. compare the sales and purchases of a merchant with the imports and exports of a nation. (131-132)

Protection and Profits

8. What belief induces working people to support protection? (135)
9. Do countries impose tariffs only on imports from low-wage countries? (136)
10. Does low paid labor necessarily mean low cost of production? (138)
11. Do we find the cheapest cost of production, in high wage or low wage countries?
12. Suppose one country produced all things better than other countries. Would it still be mutually profitable for that country and its neighbors to trade with one another? (145-147) (supplement)
13. Would a country that allowed its citizens the freedom to trade with the people of other countries, enjoy any benefits if all other countries restricted their citizens from doing the same? (149-150)
14. Does an increase in industrial development draw a greater population and increase productivity, or does an increase in population, which permits greater subdivisions of labor and economies of scale, increase the potential to produce, and manifest itself in industrial development? (153-160)
15. How does legislative encouragement or restriction of any one industry affect the production of wealth?

16. What is the real cost of protective duties to the people at large? (167)
17. Does protection always succeed in increasing the profits of those industries which it is designed to encourage? (166-169)
18. Why cannot any business open to domestic competition gain a permanent advantage from protective tariffs? (170-172) (180)
19. In which industries do protective tariffs result in greater profits? (171)
20. What is the most fundamental monopoly?
21. Do the larger profits resulting from protection in monopolistic industries go to the producers?
22. How has protection retarded production?

Answers - Lesson IV - Money And Profits

Based on Protection of Free Trade, Chapters XIII - XVIII

1. How does the idea arise that a nation loses from importing products and gains from exporting them? (123-124) If we thought of nations as though they were individuals or businesses, then the products they sold to other countries would be their exports, while the products they bought from other countries would be their imports. The more they sold, and the less they had to buy, the greater their profits.
2. What is the function of money? It won't satisfy your desires directly—you can't eat it, wear it, ride it or live in it—but you can trade things for it. It is a medium of exchange. (125-127)
3. As civilization advances, what supersedes the use of gold and silver in international trade? They are superseded by instruments of credit—bills of exchange, letters of credit, notes, drafts and credit transfers etc. (125) Today, US dollars, Euros, and Japanese Yen are global currencies, called reserve currencies, and used in international trade.
4. How did the habit of thinking of gold and silver as the only real wealth arise? In times when life and property were less secure, it was important to have something readily concealed, conveniently carried, speedily exchanged, and universally accepted. Gold and silver fit these requirements and was considered by many to be the only real wealth? (127)
5. How does this idea help support the protective theory? If we thought of nations as merchants competing with one another for the gold of the world, it would clearly support the protective theory? Imports were discouraged, except gold. (128)
6. What economic conditions tend to affect the fluctuation of the price of gold? Over the centuries, gold more than most other products had remained scarce and maintained its value. When uncertain or unfavorable economic conditions arise, people have consistently turned to gold as a store of value. As more people try to buy gold its value goes up. As inflation is low, and interest rates are high, people are inclined to sell gold and buy stocks or bonds, and the price of gold goes down.
7. compare the sales and purchases of a merchant with the imports and exports of a nation. The money received from a sale would be comparable to the imports of a nation. The products given by a merchant would be equal to the exports of a nation. Keep in mind that the money received by the merchant is a claim on other products or things, not the final object sought in rendering the product which is sold. (131-132) Only after the money is spent are the and something is bought can the values be compared.
8. What belief induces working people to support protection? Working people believe that the products of low-paid labor in other countries can undersell the products of high-paid labor in the U.S. when competition is permitted. It is this which leads working people in the U.S. to support protection? (135)
9. Do countries impose tariffs only on imports from low-wage countries? However, tariffs have not only been advocated on imports from low-wage countries like Mexico and Indonesia, they

have also been advocated for high wage countries like Japan and Germany when they were able to sell products cheaper than American companies. (136)

9. . Do countries impose tariffs only on imports from low-wage countries? However, tariffs have not only been imposed on imports from low-wage countries like Mexico and Indonesia, they have also been imposed on high wage countries like Japan and Germany when they were able to sell products cheaper than American companies. (136)

10. Does low paid labor necessarily mean low cost of production? (138) No. “The truth is, that a low rate of wages does not mean a low cost of production, but the reverse. The universal and obvious truth is, that the country where wages are highest can produce with the greatest economy, because workmen have there the most intelligence, the most spirit and the most ability; because invention and discovery are there most quickly made and most readily utilized. The great inventions and discoveries which so enormously increase the power of human labor to produce wealth have all been made in countries where wages are comparatively high.” H.G. (138)

11. Is the cheapest cost of production in low or high wage countries? High wage countries. For example, in the 1990s Mexico produced about \$4,000 per person each year, while the U.S. produced over 25,000 per person. That greater productivity is more than enough to pay much higher wages and the return on far greater value of the capital (buildings and machinery) per worker. If we take the total value of things produced, and subtract all the wages paid to labor; all the interest paid to capital; all the wealth paid to people with monopolies (franchises, patents, licenses, copy rights), and all taxes at all levels of government, it all adds up to the total cost of production. The difference between the cost of production and the value of the wealth produced, is the rent of land. Wherever the cost of production is low, the value of land is high and visa versa. Japan has higher land values per person than Mexico. Therefore, in spite of its higher wages, it has a lower cost of production.

12. Suppose one country produced all things better than other countries. Would it still be mutually profitable for that country and its neighbors to trade with one another? Yes. It is called The Law of Comparative Advantage. Suppose country A produced all things better than countries B, C, & D. Then country A could send products of which there is the greatest superiority in production to countries B, C, & D. In exchange, those countries would sent back products in which there was the least superiority. In that way country A would get more of the products in which there was the least difference in production than they could have produced themselves with the same amount of labor and capital. And countries B, C, & D. would have gotten more of the products of which there was the greatest difference in the efficiency of production than they could have produced with the same amount of labor and capital. (145-147)

13. Would a country that allowed its citizens the freedom to trade with people of other countries, enjoy any benefits if all other countries restricted their citizens from doing the same? (149-150) A country that allowed its citizens the freedom to trade with people of other countries would still enjoy much of the benefits even if all other countries restricted their citizens from doing the same. (149-150) The incentive for the people of other countries to trade would be diminished by the amount of their tariffs, but there would still be many products that, in spite of the tariffs would be beneficial to exchange. So, for a country to penalize its own people by adding to

the price of everything they get in exchange, because other countries have penalized their people by adding to the price of everything they have received in exchange would double the penalty and divert far more production from what labor and capital produces most efficiently to what is more costly to produce and artificially more profitable to the owners of protected industries.

Encouragement of manufactures

14. Does an increase in industrial development draw a greater population and increase productivity, or does an increase in population, which permits greater subdivisions of labor and economies of scale, increase the potential to produce, and manifest itself in industrial development? (153-160) The latter. In the natural order of things, industries are not established first, and then population is drawn to them. It is just the reverse. As population increases and the infrastructure is built with roads and bridges, utilities and public service, it enables greater and more efficient divisions of labor and economies of scale. Capital and industry are drawn to it.

15. How does legislative encouragement or restriction of any one industry affect the production of wealth? By increasing the rewards for producing protected products. It diverts labor and capital from producing things they would produce more efficiently, and that reduces the total production of a nation.

16. What is the real cost of protective duties to the people at large? 1. The tax upon imported goods, plus the profits upon the tax, plus the attendant corruption. And, 2. the higher price paid for products of the protected home industry. (167)

17. Does protection always succeed in increasing the profits of those industries which it is designed to encourage? No. In the long run protection does not always succeed in increasing the profits of those industries which it is designed to encourage. The tariff increases the price of a product, and everything that the product is a part of, like tariffs on steel increase the price of cars. When many different products are protected, the increased prices reduce demand for the protected products. Therefore beyond a certain point, the tariff, by reducing demand, for cars, reduces the demand for steel to make them out of, and delivers no greater profits to the industries (like steel) it is designed to encourage? (166-169)

18. Why cannot any business open to domestic competition gain a permanent advantage from protective tariffs? (170-172) (180) Any business open to domestic competition cannot gain a permanent advantage from protective tariffs. (170-172) (180) Suppose that the average return for industrial investment was 15%. Then a large tariff was placed on foreign cars. As a result of the tariff, imported cars cost so much, that people started buying US made cars. More US made cars were selling at higher prices (they still cost less than foreign cars plus the tariff). As a result, US automobile production was now yielding a 20% return on their investment. At that point, other big corporations would be drawn to the auto making business in pursuit of the 20% return on their investment. They could buy stock in GM or Ford, or start their own company making cars.

As more American cars are made, the supply of cars to be sold increases the competition, and the price starts to fall. Investors will continue investing in the production of cars, until the returns (profits) become no greater than other investment opportunities. Of course patents and experience will give GM and Ford advantages over new companies, but no business open to domestic competition can gain a permanent advantage from protective tariffs. Although the profits of

producers will be no higher in domestically competitive protected industries, higher consumer prices will reflect the less efficient domestic producers over the foreign competitors. (170-172) (180)

19. In which industries do protective tariffs result in greater profits? In the long run, tariffs only result in greater profits for those industries in which there cannot be domestic competition. Natural resources like iron and copper, or products that are protected by domestic patents are the only industries that ultimately enjoy higher profits as a result of tariffs and protection in general. For example, suppose instead of cars, we put a large tariff on steel. The demand for land that contained iron ore would increase—but since land cannot be produced, any greater profits from the increased demand for domestic iron ore would go to the owners of the land that contains iron ore. (171)

20. What is the most fundamental monopoly? Land.

21. Do the larger profits resulting from protection in monopolistic industries go to the producers? Instead of going to producers, all benefits from tariffs and quotas go to land owners and other monopolists, like those that have patents on machinery and consumer goods.

22. How has protection retarded production? Protection has retarded production by increasing the price of imports. By increasing the profits of domestic production, it diverts labor and capital from producing the things that they produce most efficiently to making things that the people of other countries make more efficiently and cheaper. This reduces the total production of wealth. Let's say that prior to any tariffs or quotas, the U.S. imported steel from Germany in exchange for wheat, which the U.S. produces more efficiently. Next let's say that a tariff or a quota is placed on German steel. The higher price encourages American steel companies to produce more steel, and the price of land that contains iron ore increases in value. Because the U.S. is no longer producing wheat to export in exchange for steel, the value of land that grows wheat decreases in value. So to a large extent, what the owners of land that contains iron ore gain, the owners of land that grows wheat will lose. However, because the United States grows wheat more efficiently than it makes steel, the aggregate production of the country is diminished. (The G.D.P. falls)

This reduction in productivity may be offset by new inventions, or new discoveries. However, in the absence of a free land alternative, any decrease in productivity reduces the rent of land. This is the same principle which, in the absence of free land, allocates all increases in productivity to land rent. When the owners of idle land do not lower prices in harmony with the decrease in land rent, land cannot be purchased, new jobs cannot be created, and a recession results.

Narrative - Lesson V - Protection and Wages

Summary: Protection or Free Trade, Chapters XIX - XXIV

Protection and Wages

Protectionists claim the effect of protection is to prevent wages from falling to the lower level of other countries "Discussions of the tariff question seldom go further than the point we have reached. Protectionists claim that restricting imports prevents wages from falling to the lower level of other countries. " . . but this is based on the assumption that protection is necessary to enable production to be carried on at the higher level of wages, and that if it were withdrawn, production would so decline, by reason of the underselling of home producers by foreign producers, that wages must also decline." H.G. (195)

The effect of protection (import taxes or quotas) on prices is to raise them. The effect of higher prices is to lower wages in terms of what you can buy. (197-199)

Wages are determined by competition in the labor market—not the goods market. (199-200)

The aim of protection is to lessen competition in goods market—not the labor market. (204)

Protected industries do not necessarily share their higher profits with their workers. (207-209)

With a tariff, wages in a specific industry can be raised briefly and in a small way by a sudden increase in the demand for the skill needed to make a protected product. However, those higher wages fall, as they encourage people to learn the skill and apply for jobs in the protected industry. (209-210)

In the long run, the higher wages of skilled workers depend on the difficulty of accumulating the knowledge, learning the skill, and the desirability of the job. As the supply of people who can and are willing to perform a job increase, their wages go down.

To raise the general level of wages, it is necessary to raise the wages of those with the least skill and knowledge. Today, that would be people working for the legal Minimum Wage. (211-213)

A tariff on agricultural products cannot raise wages. Although the United States is generally an exporter of agricultural products, it does import some, and even if it imported most of its food, the fact that wages are not determined by the prices of the products you make or profits, means that a tariff on agricultural products (food) can not raise wages. (213) Because a tariff can not raise the wages of the least skilled workers, it can not raise the wages of skilled workers either.

With the exception of those industries that have gained higher wages by way of labor unions, wages in protected industries are no higher than wages in un-protected industries. By 1998 there were few seriously protected industries, but textiles, which includes clothing, were still taxed above 25%, and the wages of textile workers were no higher than others workers with equally difficult jobs. (215-216)

The Abolition of protection

"If protection be unjust, if it be an infringement of equal rights that gives certain citizens the power to exploit other citizens, then anything short of its complete and immediate abolition involves a continuance of injustice. No one can acquire a vested right in a wrong; no one can claim property in a privilege." H.G. (217)

The advocates of Free Trade show only how Free Trade will increase production. They do not show how Free Trade would raise wages. The advocates of Free Trade show only how protection lowers production and fosters monopolies. They do not show how protection lowers wages. (226)

Free Trade and Wages --- The Inadequacy of the Free Trade Argument

An increase in the production of wealth, does not mean an increase in wages. (227) " In the United States where political power is in the hands of the masses, the vital point in the tariff controversy is as to its effect upon the earnings of "the poor people who have to work"

"But this point lies beyond the limit to which free traders are accustomed to confine their reasoning. They **prove** that the tendency of protection is to reduce the production of wealth and to increase the price of commodities, and from this they **assume** that the effect of the abolition of protection would be to increase the earnings of labor. But not merely is such an assumption logically invalid until it is shown that there is nothing in existing conditions to prevent the working-class from getting the benefit of this tendency; but although in itself a natural assumption, it is in the minds of "the poor people who have to work" contradicted by obvious facts. In this is the invalidity of the free trade argument, and here, and not in the ignorance of the masses, is the reason why all attempts to convert working-men to the Free-Trade-ism which would substitute a revenue tariff for a protective tariff must, save under such conditions as existed in England in the 1840s, utterly fail." H.G.

Labor unions were against Free Trade agreements leading up to the North American Free Trade Association in the 1990s and are still against them today.

The Free Trade theory is inadequate because it doesn't explain how Free Trade will preserve jobs, and increase wages. (228)

Free Trade could, were it adopted suddenly, increase productivity and the demand for workers so much that wages would initially tend to rise. However, in time, wages would tend to go back down because there is no free land opportunity where workers could employ themselves. (230)

The fundamental problem, which Free Trade alone cannot solve, and which accounts for the general acceptance of protection, is that in spite of the enormous increase of productive power, it is yet so difficult for the least demanded (skilled, educated) workers to get a living. (233-235)

There are two reasons why the inequality in the distribution of wealth tends to lessen the total production of wealth. 1. Low wages tend to reduce the ability to learn, acquire an education,

and work more productively. 2. People who receive unearned incomes have much less incentives to work and produce. (241)

In spite of its fallacies, there is one fact from which protection draws its greatest strength. The majority of workers are more concerned with the number of jobs, than efficiency. In a fully developed society there are at all times people who are unable to find work. (243-244)

Protection requires more work to produce the same result. When a country produces its own food, clothes, cars, appliances, tools and toys, it may be less efficient, but it requires more work to get the same result. This seems to make more jobs. (244)

Work is not a desirable thing in itself. Although we only want the results of work, the only way most people know to get the results of work, is to get a job and work. (326-247)

The seller of commodities has an advantage over the seller of labor. If he doesn't sell a commodity to day it can be sold tomorrow. If a person doesn't sell his or her labor today, it cannot be sold tomorrow. (248)

Where the worker cannot be self-employed, his or her attitude toward the employer is one of gratitude. Because they cannot employ themselves, they feel indebted to the employer that gives them a job.

Labor-saving inventions have added no benefit to the condition of labor. Wages are not determined by the results of labor. Just as free trade would increase the general level of productivity, so have labor-saving inventions already increased productivity. But, whatever improvement there has been in the general well-being of workers, it has come by other means—Minimum Wage laws, The eight hour day, Labor Unions, etc. (253-257)

Automation and computerization have increased the demand for highly skilled workers who can adapt the new technologies to additional applications, and highly skilled technicians to maintain and repair each new and different type of machine. However, as these new skills and knowledge become more widely held, as with all new technologies, wages in these new fields tend to go down toward that of other occupations in which the skills and knowledge are equally difficult to acquire. As the general level of education and skill include the use of new technologies and skills like the use of personal computers, the requirements for entry level jobs tends to increase with it.

The number of people employed will always be limited by the amount of land that is available for employment. The degree to which land is treated as private property and land speculation is profitable will determine the level of un-employment. The general level of skill and knowledge, and the number of job opportunities will determine the minimal skill, knowledge, and productive capacity needed to participate in the workforce.

SUPPLEMENT - LESSON V

1. U.S. TRADE POLICY

Tariffs have been part of United States policy since the founding of the Republic in 1789. The protection-versus-free-trade issue also dates from the beginning of the nation. Alexander Hamilton advocated protectionism and Thomas Jefferson advocated free trade. Protectionist policy was supposed to be beneficial to manufacturing industries, in the belief that keeping out foreign competition would help build up American “infant industries.” (Henry George deals with this question in Chapter X of *Protection or Free Trade*.) Free trade policy was generally advocated for the benefit of U.S. agriculture which would presumably be helped by the import of cheaper manufactured goods from abroad.

This controversy became sectional and persisted through the Civil War, when the agricultural South was for free-trade, and the industrial North for Protection. However, in the nation as a whole, both before and after the Civil War, tariffs kept rising steadily (with the exception of reductions in Cleveland’s and Wilson’s administrations) until it reached its highest point with the Hawley-Smoot tariff of 1930. With imports sharply curtailed, the rest of the world stopped buying from the U.S. and international trade collapsed.

To ameliorate the situation, the Reciprocal Trade Agreement Act was passed by Congress in 1934, and since then the U.S. has negotiated agreements with other countries whereby there is a mutual lowering of tariffs.

In 1947, the General Agreement on Tariffs and Trade (GATT) was started, with 23 nations including the United States. Instead of bilateral agreements, GAIT introduced multilateral agreements whereby a number of nations negotiate with one another simultaneously.

The Trade Expansion Act of 1962 and the Trade Act of 1974 showed increasing attention to expanding trade with the rest of the world; however, they promised aid to industries and laborers “hurt” by increased trade. Not only economic, but political considerations were introduced, such as dealing with the Communist world.

In 1979, two acts were passed which affected international trade: the Export Administration Act, and an Amendment to the ‘Tariff Act of 1930 relevant to imports. Both laws increased political involvement with respect to both imports and exports. The importance of tariffs as public revenue has declined. They once accounted for nearly 50% of federal revenue, but dwindled to about 1%. The main motivation during most of the 20th century was not revenue but economic and political policies. These are implemented not only by tariffs but by exchange controls, quotas, etc.

In 1985, the U.S. entered into an agreement with Israel for the progressive mutual reduction of tariffs to zero within ten years. The amount of trade is not great by world standards, and the motivation is political more than economic. However, it was hoped to serve as a guide to further unilateral negotiations, since multilateral negotiations did not work very well.

Traditional economic worries still underlie trade policies. Despite strong support of freer international trade, There is still the basic fear of “flooding the market with cheap goods,” unemployment, closed industries, etc. Whereas in the 19th century it was mostly industrialists who pressed for high tariffs, today organized labor joins the chorus. Until this basic economic fear can be eradicated, there is not likely to be a genuine move toward full

free trade.

2. THE U.S. AND JAPAN

Japan developed into the leading rival of the U.S. in industry and high technology, outstripping Europe and even leaving West Germany behind during the last decades of the 20th century.

After World War II, Japan had to make a completely new start, with its industrial base demolished. This was spurred by American-induced reforms, notably land reform and the break-up of the Japanese feudal system. The contrast between rich and poor was substantially reduced. Furthermore, the Americans dismantled the Japanese military. Supposedly a disciplinary measure, it relieved the Japanese economy of a great burden for several years.

Required to make a new start, and uninhibited by an entrenched establishment, Japanese industry sought to undertake the best performance possible. An industrial system has evolved that performs well and keeps seeking improvement. Research and development are important in Japanese industry, which is, compared to its American competition, more committed to long-term success than to quick profits. In its export markets it studies needs and demands, adapts itself and pursues aggressive selling.

There is a close relation between government, business and labor. Although government in Japan is smaller than in most advanced countries, it plays an active role with an “industrial policy” seeking to encourage development of the most promising ventures.

Although the wage scale in Japan is not as high as in the U.S., it is still high by world standards and substantial fringe benefits are offered. The Japanese worker has a close relation with his or her firm that has been compared to a family relationship. There is job security, worker responsibility for quality control and job satisfaction. American workers with Japanese firms admit that they prefer this to a higher wage scale with insecurity, union restrictions, job monotony and being a “cog in a machine.”

While more than half of Japanese products are sold domestically, a substantial portion is sold to Americans who find Japanese automobiles, television sets, etc., desirable goods.

Much of American industry and labor have responded by demanding higher tariffs and restrictions on Japanese imports. But some American industries have shown interest in studying Japanese methods and emulating them. These industries are not only able to hold their own in the U.S., but have even penetrated the Japanese market.

Those sectors of U.S. industry that are declining have failed to observe productive and market efficiency. Steeped in old methods, they persisted in their ways, failing to keep up with technological innovations and ignoring many danger signals. They were also indifferent about studying world markets and adapting to them. One typical case was the automobile industry which suffered serious decline, but eventually woke up and began paying attention to matters that the Japanese have been cultivating, with a resultant revival. The steel industry is another case.

The Japanese have forged ahead by improving on technology initiated elsewhere, especially the U.S. In the U.S. there has been a long tradition of invention and innovation. But the lethargy of monster business, the drag of monopoly, and burdensome taxes have been drawbacks. The U.S. is still ahead in computers and other high technology, but the weight of privilege and inefficiency could pose a danger here, too.

Tariffs and trade restrictions are forms of privilege that could set back further U.S. development. A free market and the abolition of privilege could restore the remarkable productivity for which the U. S. has been famous.

Student _____

Questions - Lesson V - Protection and Wages

Protection or Free Trade, Chapters XIX - XXIV

Protection and Wages

1. What do protectionists claim is the effect of protection on wages? (195)
- 2a. What is the effect of protection (import taxes or quotas) on prices?
 - b. In terms of what you can buy, what is the effect of the resulting prices on wages? (197-199)
3. Are wages determined by competition in the goods market, or the labor market? (199-200)
4. Is the aim of protection to lessen competition in the labor market or the goods market? (204)
5. Do protected industries necessarily share their higher profits with their workers? (207-209)
6. Can wages in a specific industry be raised briefly and in a small way by a tariff? (209-210)
7. To raise the general level of wages, at what level must we begin, the highest or lowest paid workers—The heads of corporations, or the people on Minimum Wage? (211-213)
8. Can a tariff on agricultural products raise wages?
9. Are wages in protected industries any higher than wages in unprotected industries? (215-216)

The Abolition of protection

10. Would it be just to abolish protection all at once? (217)

11a. Do the advocates of Free Trade show how Free Trade will increase production or raise wages?

11b. Do the advocates of Free Trade show how Protection lowers wages, or decreases production and fosters monopolies? (226)

Free Trade and Wages --- The Inadequacy of the Free Trade Argument

12. Does an increase in wealth necessarily mean an increase in wages? (227)

13. Why is the free trade theory inadequate? (228)

14. Would free trade increase wages permanently? (230)

15. What is the fundamental problem, which free trade alone cannot solve, and which accounts for the general acceptance of protection? (233-235)

16. Give two reasons why the inequality in the distribution of wealth tends to lessen the total production of wealth? (241)

17. From what fact does protection, in spite of its fallacies, draw its greatest strength? (243-244)

18. Does protection require more work to produce the same result? (244)

19. Is Work a desirable thing in itself? (326-247)

20. What advantage has the seller of commodities over the seller of labor? (248)

21. Where the worker cannot be self-employed, what is his or her attitude toward the employer?

22. What has been the effect of labor-saving inventions on the condition of labor? (253-257)

23. Is the higher pay of automation and computer technologists permanent?

Answers - Lesson V - Protection and Wages

Summary: Protection or Free Trade, Chapters XIX - XXIV

Protection and Wages

1. What do protectionists claim is the effect of protection on wages? That it prevents wages from falling to the lower level of other countries "Discussions of the tariff question seldom go further than the point we have reached. Protectionists claim that restricting imports prevents wages from falling to the lower level of other countries. " . . . but this is based on the assumption that protection is necessary to enable production to be carried on at the higher level of wages, and that if it were withdrawn, production would so decline, by reason of the underselling of home producers by foreign producers, that wages must also decline." H.G. (195)
- 2a. What is the effect of protection (import taxes or quotas) on prices? To raise them.
b. In terms of what you can buy, what is the effect of the resulting prices on wages? To lower them. (197-199)
3. Are wages determined by competition in the goods market, or the labor market? The labor market. (199-200)
4. Is the aim of protection to lessen competition in the labor market or the goods market? The goods market. (204)
5. Do protected industries necessarily share their higher profits with their workers? No. (207-209)
6. Can wages in a specific industry be raised briefly and in a small way by a tariff? Yes. Protection of a specific industry could raise wages temporarily within that industry, by a sudden increase in the demand for the skill needed to make a specific product. However, those higher wages would fall, as the higher wages encouraged people to learn the skill and apply for jobs in the protected industry. (209-210) The higher wages of skilled workers will depend on the difficulty of accumulating the knowledge, learning the skill, and the desirability of the job. As the supply of people who can and are willing to perform a job increases, their wages go down.
7. To raise the general level of wages, at what level must we begin, the highest or lowest paid workers—The heads of corporations, or the people on Minimum Wage? (211-213) The lowest paid workers, like the people on Minimum Wage.
8. Can a tariff on agricultural products raise wages? No, Although the United States is generally an exporter of agricultural products, it does import some, and even if it imported most of its food, the fact that wages are not determined by the prices of the products you make or the profits, means that the tariff on agricultural products (food) can not raise wages. (213) Because a tariff can not raise the wages of the least skilled workers, it can not raise the wages of skilled workers either.
9. Are wages in protected industries any higher than wages in unprotected industries? No. Excluding those industries which have gained higher wages with labor unions, wages in

protected industries are no higher than in unprotected industries. In 1998 there were few seriously protected industries, but textiles, which includes clothing, were still taxed above 25%, and the wages of textile workers were no higher than others workers with equally difficult jobs. (215-216)

The Abolition of protection

10. Would it be just to abolish protection all at once? Yes. "If protection be unjust, if it be an infringement of equal rights that gives certain citizens the power to exploit other citizens, then anything short of its complete and immediate abolition involves a continuance of injustice. No one can acquire a vested right in a wrong; no one can claim property in a privilege." H.G. (217)

11a. Do the advocates of Free Trade show how Free Trade will increase production or raise wages? The advocates of Free Trade show only how Free Trade would increase the production of wealth.

11b. Do the advocates of Free Trade show how Protection lowers wages, or decreases production and fosters monopolies? The advocates of Free Trade show only how Protection lowers production and fosters monopolies. (226)

Free Trade and Wages --- The Inadequacy of the Free Trade Argument

12. Does an increase in wealth necessarily mean an increase in wages? No. "In the United States where political power is in the hands of the masses, the vital point in the tariff controversy is as to its effect upon the earnings of "the poor people who have to work" (227)

"But this point lies beyond the limit to which free traders are accustomed to confine their reasoning. They **prove** that the tendency of protection is to reduce the production of wealth and to increase the price of commodities, and from this they **assume** that the effect of the abolition of protection would be to increase the earnings of labor. But not merely is such an assumption logically invalid until it is shown that there is nothing in existing conditions to prevent the working-class from getting the benefit of this tendency; but although in itself a natural assumption, it is in the minds of "the poor people who have to work" contradicted by obvious facts. In this is the invalidity of the free trade argument, and here, and not in the ignorance of the masses, is the reason why all attempts to convert working-men to the Free-Trade-ism which would substitute a revenue tariff for a protective tariff must, save under such conditions as existed in England in the 1840s, utterly fail." H.G.

Labor unions were against Free Trade leading up to the North American Free Trade Association in the 1990s.

13. Why is the free trade theory inadequate? It doesn't explain how Free Trade will preserve jobs, and increase wages, so, it is completely inadequate. (228)

14. Would free trade increase wages permanently? No. Although free trade could increase productivity so much that wages would initially tend to rise in the long run, wages would tend to go back down because there is no free land. (230)

15. What is the fundamental problem, which free trade alone cannot solve, and which accounts for the general acceptance of protection? That in spite of the enormous increase of productive power, it is yet so difficult for the least demanded (skilled, educated) workers to get a living. There aren't enough jobs, and wages tend to a minimum. (233-235)

16. Give two reasons why the inequality in the distribution of wealth tends to lessen the total production of wealth? 1. Low wages tend to reduce the ability to learn, acquire an education, and work more productively. 2. People who receive unearned incomes have much less incentives to work and produce. (241)

17. From what fact does protection, in spite of its fallacies, draw its greatest strength? The majority of workers are more concerned with the number of jobs, than efficiency. In a fully developed society there are, at all times, people who are unable to find work. (243-244)

18. Does protection require more work to produce the same result? Yes. When a country produces its own food, clothes, cars, appliances, tools and toys, it may be less efficient, but it takes more work to get the same result. That seems to make more jobs. (244)

19. Is Work a desirable thing in itself? No. Although we only want the results of work, the only way most people know to get the results of work, is to get a job and work. (326-247)

20. What advantage has the seller of commodities over the seller of labor? If a person doesn't sell a commodity today it can be sold tomorrow. If a person doesn't sell his or her labor today, it cannot be sold tomorrow. (248)

21. Where the worker cannot be self-employed, what is his or her attitude toward the employer? One of gratitude. Because they cannot employ themselves, they feel indebted to the employer that gives them a job.

22. What has been the effect of labor-saving inventions on the condition of labor? None. Just as free trade would increase the general level of productivity, so have labor-saving inventions already increased productivity. But, whatever improvement there has been in the general well-being of workers, it has come by other means—Minimum Wage laws, The eight hour day, Labor Unions, etc. (253-257)

23. Is the higher pay of automation and computer technologists permanent? No. With each new invention there is a high demand for highly skilled workers to adapt it to additional uses, and highly skilled technicians to maintain and repair each and new different type of machine. As these special skills and knowledge become more widely held, their wages tend to go back down to the level of other occupations that are equally difficult to acquire. As the general level of education and skill increases and includes new technologies, the requirements for entry level jobs tends to increase with it.

Narrative - Lesson VI - True Free Trade

Summary: Protection or Free Trade by Henry George, Chapters XXV - XXX

True Free Trade

Protection, as we have seen, diminishes the results of labor and capital, and enhances the profits of certain non-producers. In that sense Henry George compares it to a robber. However, he says, no matter how much is taken by protection, or any other robber like monopolies or unjust taxes, there is one robber who takes all that is left—and that robber is private property in land". (267)

There are other ways, besides restrictions on trade, that wealth is diverted from producers to non-producers. There are unjust taxes, government waste and corruption, monetary inflation, and other monopolies granted to the private sector. (266)

Were we to abolish all other monopolies, except the private ownership of land, the following would result: Production would be stimulated; the economy would expand, and the demand for land (on which and from which production takes place) would increase. Since land cannot be produced, the increased demand for land would continue until its value was equal to all the wealth previously diverted to other non-producers (monopolists). (268-269)

The value of land arises as its owners are able to take part of the produce of others for permission to live and work upon it. The addition of population increases each persons productivity by enabling greater and greater divisions and specializations of labor and economies of scale. Because all the land where population is dense is already owned, and any land that is freely available to others is still sparsely populated, the greater productivity is taken by the owners of land. Even advantages like fertile fields, and mineral concentrations, or access to natural harbors that make some land naturally more desirable than others are enhanced by the concentration of people. The City of Boston is a prime example.

A community, as a whole, can produce far more than its individual members could produce were they to live and work independently. Exclusive possession of land is necessitated by the rights of property in things produced upon it—crops, buildings, factories. However, ownership of land, which is superior to that which is free to others is the fundamental inequity. Where land has a speculative value it is because of the expectation that the growth of society (population) in the future will make its ownership equivalent to the ownership of labor. The rental value of land tallies the advantage) (272-273)

Inventions and discoveries that increase the productive power of labor, lessen the value of the things that require labor for their production (commodities). That is to say, inventions tend to lower the price of products. (The price of computers keeps coming down as technologies reduce the amount of labor needed to produce them).

By contrast, when there is no free land, cheaper products tend to reduce the cost of living, but the value of land goes up. As long as there aren't enough jobs, people will work for the smallest amount they can rather than be unemployed. Therefore, as the cost of products go down, workers are able to work for less, and the rent of land goes up. When there is a free land margin of opportunity, inventions generally increase production disproportionately more on superior land where population is dense. Farm machinery yields a greater result on more fertile land; mining machinery yields a greater result from the richer veins of ore; automated factories are more efficient where population is dense and greater divisions of labor are possible. Therefore, most inventions increase the value of land.

"Where land is fully appropriated as private property no increase in the production of wealth, no economy in its consumption, can give the mere laborer (least demanded worker) more than the wages of the slave." H.G. (273-274)

As long as labor has access to good quality land, the private ownership of capital (buildings & machinery, etc) could not diminish wages. That is because capital is the product of labor. It is stored up by labor to give labor a greater efficiency. If the owners of capital demanded more than the benefit of using existing capital, labor (workers) would produce additional capital and use that. When America offered free access to good quality land, and at the same time, capital was privately owned, America had the highest wages in the world. (275-276)

To make free trade beneficial to labor, a basic reform giving all people equal rights to the land must first be adopted. Only after there is a free land opportunity, and wages are equal to what labor can produce by taking advantage of the natural opportunities that are equally available to all, can any increase in productivity such as Free Trade, raise wages. (280)

Common property in land, the natural opportunity, does not conflict with people's exclusive right to own the product of their labor. It enables everyone to receive the full results of their labor. It is private property in land that enables one person to take (legally steal) what another person has produced. (280)

The equal rights to the use of land can be secured by requiring each landholder to pay to the community the rental value of the land they hold. By doing that we may safely leave each landholder undisturbed possession of the land assigned by their deed, and yet satisfy all other peoples equal rights to the same land—the same natural opportunity. (280-282)

Machinery now exists in the real-estate tax that can be used to collect the rent of land for society. The real-estate tax now collects a tax levied on the selling value of land. It need only be changed to collect the rental value. (382-283)

In addition to collecting the rent of land, all other taxes should be abolished. (283-284) George also advocated the socialization of all businesses that are in their nature monopolies—roads, railroads (not necessarily the train companies), highways, water lines, electric and phone wires—and the abolition of all other monopolies.

The major benefits to be derived from the public collection of the potential rent of land (rental

value) are 1. Increased productivity. Non-use and under-use of the most potentially productive land in the private sector would cease. As labor and capital moved to the more productive previously unused land, the total results of labor and capital (G.D.P.) would increase. Without idle lands, a greater cooperation would result in greater productivity.

2. Full Employment. Since land could no longer be withheld, as long as nature provided enough land capable of yielding more than subsistence, all who were willing and able to work would be employed.

3. Increased wages and Interest. Although the best quality of land would have high values, much of the land would have no value at all. As the productive potential of the free land increased above subsistence, it would raise the general rate of wages and interest. That is because no one will work for someone else unless they are offered more than they could have produced working for themselves.

4. No Taxes on Wages or Interest. Revenues would come from a charge for benefits received, as reflected in the rental value of land. Government would be limited to the socially created values as distinguished from those produced by individuals and private companies.

5. Land rent is a natural source of revenue that increases in Harmony with the increasing needs of social growth.

The difference between a tax on land area and a tax on land value is an important distinction. With a tax on land area (so many dollars per acre), there is no account of fertility or distance to markets, it is based only on size. With a tax on land area, a Center City merchant would pay a small fraction of what a farmer would pay even though his land and the benefits received from society are many times more valuable. Were there still free-land of good quality, a tax on land area would be paid at the expense of wages and interest, as it would have to be paid whether the land had value or not.

A land value tax is levied on the value of land only. It taxes only the advantage that each landowners has over non-landowners. It does not tax land unless it will yield more than the current rate of wages and interest.

In the view of Henry George, True Free Trade means no impositions (taxes) on production at all. Keep in mind that trade is part of production.

"... free trade cannot logically stop with the abolition of customhouses. It applies as well to domestic as to foreign trade, and in its true sense requires the abolition of all internal taxes that fall on buying, selling, transporting or exchanging, on the making of any transaction or the carrying on of any business, save of course where the motive of the tax is public safety, health or morals. . . . We should . . . give full play to the natural stimulus to production. . . . leaving every one free to make, exchange, give, spend or bequeath."

Henry George Believed that "free trade means free production. Fully to free production it is necessary not only to remove all taxes from production, but also to remove all other restrictions

on production. True Free Trade, in short, requires that the active factor of production, Labor, shall have [equal] access to the passive factor of production, Land. To secure this all monopoly of land must be broken up, and the equal right of all to the use of the natural elements must be secured by the treatment of the land as the common property in usufruct of the whole people. Usufruct means the right to use and enjoy something belonging to another as long as the property is not damaged or altered in anyway. (286-290)

Taxes are often equated with government confiscation of rightful property. In that sense of a tax, the public collection of land rent is not a tax. It would have in common only the fact that it was spent for public purpose. Unlike a confiscatory tax, the public collection of rent would simply be a payment in proportion to the value of the benefits received. (288)

Land rent alone would be sufficient to cover needed public expenditures. Collecting the rental value of land for public purpose would lower the rental value of land generally, while at the same time, it would increase the value of land in areas with large and concentrated populations. It would stop land speculation (non-use and significant under-use of land). Labor and capital would migrate to the best previously unused and significantly under-used locations. This would offer many areas of good land with no demand, and therefore, no value. That creates a free-land alternative place of employment—raising wages and interest everywhere to what workers and capitalists could have produced by utilizing the natural opportunities that are equally available to everyone. As wages and interest go up, land rent everywhere goes down by the same amount.

However, at the same time, migration toward the best and better lands also increases the size and density of the populations on those lands (cities & urban areas) with a greater potential for subdivisions of labor, and economies of the infrastructure and public service (a street that is heavily traveled is more efficient than one that is sparsely traveled up to a point). Because the land that is free is sparsely populated, the land in an area that has larger and denser populations has a value that takes into account the greater productivity that results from the larger and denser populations.

Henry George believed that the greater productivity, which accounts for the rental value of land would yield not only ample funds to maintain the infrastructure and public service, but provide for social programs. Today it could be Social Security and government funded healthcare. As populations get bigger and denser, the increasing rent on particular lands, would provide for the increasing needs of social growth.

To be sure, collecting the rental value of land for public purpose will stop land speculation and increase the per capita (per person) production of the country. Whether wages and interest would increase so much (Get so much more of what's produced) that governments would get no more money than they now take in taxes is not certain. But, even if the potential rent of the country were less than current tax revenues are now, then wages and interest would be large enough that individuals could well afford much of what government now provides. If, as George believed, the rent of superior lands provided more than is now taken in taxes, there would be a great surplus of socially created wealth that could be used for things like Social Security, government paid healthcare, and even a cash dividend. With full employment and high

wages, welfare, crime, and law and order are likely to cost a tiny fraction of today's expenditures.

Georgism and Socialism

By collecting the rental value of land, land becomes a common opportunity. This is a primary reform because eliminates the root cause of exploitation and poverty. When other unjust incomes are eliminated, it increases the unjust income from private property in land. When private property in land is eliminated, it does not increase the unjust incomes from other monopolies. Therefore, it is a primary reform and makes all other reform come easier. (300)

The essential scheme of socialism is that the state (government) should direct the production and distribution of wealth, and abolish all competition. Socialists maintain that competition is an evil by itself and should be abolished. (304) Also see supplement.

George agrees with some of the ideas of socialism. He believed that as civilization advances, conditions arise that enlarge the domain of social action. He agrees with socialists in their desire to abolish war and the preparations for war, and to socialize businesses, which are in their nature monopolies, like the roads and pipes and wires that run along them. (203-204) He disagrees with the socialist proposal to abolish competition and to make the state (government) the sole capitalist and employer. (304-308)

George differed from the Socialists in his attitude toward competition. He maintains that with free conditions and abundant opportunities, competition would direct labor and capital to their most efficient application—to produce the things each person can produce most efficiently within the demands of the market. He concludes that it is only because of restricted opportunities that competition seems like an evil. (307-308)

George's proposal to tax the rental value of land would improve government in two ways: First, by raising wages and improving social conditions, the people would have more time to concern themselves with public policy, and corruption would diminish. And two, they would need far less public revenue for the preservation of order, the administration of justice, and welfare, because there would be full employment and affordable housing. The focus of government would be shifted away from trying to influence the economy, and its primary purpose and obligation would be to collect the socially produced rental value of land. This would insure that land was not hoarded, nor was anyone taking what others produced. Governments could then focus more of their resources on the environment, research and the infrastructure . (305-306)

In order to bring about in a practical way recognition and adoption of his proposal, George contends that people's moral sense must be aroused. Justice rather than self interest should be the appeal. Opposition should not be feared, because interest cannot be aroused without it. Practical proposals should be put forth and public discussion of them promoted.

SUPPLEMENT - LESSON VI

1. Socialism and Communism

“Socialism” is a much used and misused term. There are various degrees and interpretations of Socialism. The word was coined around 1830 to indicate any doctrine that tries to rationally organize economic and social life.

In its more particular and most frequently used sense, Socialism is a system of social or governmental ownership and control of the means of production. Marxism (the theories of Karl Marx) teaches the coming of Socialism through class struggle and revolution. In its most thoroughgoing form, this doctrine is known as Communism, and is identified with Soviet Russia’s international Communism and the Communist Party. (In a more general but less-used sense, Communism means the abolition of all private property and the holding of all goods in common.)

Whatever the degree of Socialist doctrine, from extreme Communism to milder state control, the basic underlying assumption is that the marketplace, under conditions of pure *laissez-faire* competition, is incapable of securing to society an equitable distribution of wealth.

Socialists assert that if the market is left alone to decide who is to get how much of the world’s goods, the result is a division of society into classes and the emergence of a struggle between the exploiting class and the enslaved working class. Competition, they say, becomes “cutthroat competition” and fosters trusts, cartels and monopolies. The Socialist contention is that instead of making earnings proportional to service rendered, the marketplace gives the highest rewards to the worst exploiters.

In their analysis of the economic problem, Socialists lump land and capital under the single heading of “capital,” and some Socialists even include money as capital. This confusion prevents them from seeing the possibility of a beneficial free market without the element of monopoly. They want to secure justice by abolishing private enterprise and the profit motive--and even eliminating money, if possible.

Although some early Socialists were anti-government, government planning and control of all industry has become synonymous with the Socialist platform. Apparently a strong central government with dictatorial powers and bureaucratic control is needed if economic decisions cannot be trusted to the free market. The result has generally been curtailed production of consumer goods, shortages, black markets, bribery and corruption on a large scale. Freedom of job-choice, freedom of speech and press are greatly curtailed because of the necessity of pursuing a single plan. All of these things must be enforced by a strong police power.

One of the biggest failures in Communist countries is farm production. Farmers are extremely reluctant to produce more than they need for themselves when they are not given rewards commensurate with the production. By contrast, the farm produce of countries where farmers are relatively free to produce and sell is much greater. The free-market economy has proven

itself again and again to be superior to a planned socialistic economy in terms of higher production and greater freedom. It can be noted, however, that despite their failings, “socialistic” revolutionary governments have succeeded in easing the horrible poverty and disease for millions of people in developing countries.

The mistake of lumping land and capital together is what gives Communism both its strength and its weakness. Its strongest appeal is to the impoverished landless masses of the world who have been rack-rented for ages by ruthless landlords. Its greatest weakness is in its inability to provide the incentive that is given by the free market to let the producer enjoy the benefits of what he or she produces.

Communism has not won over countries that are industrially advanced, as Marx predicted, as part of his economic interpretation of history. Instead, it has taken over in industrially backward countries (Russia, China, Cuba, Vietnam), which had a serious land problem. The real answer to Socialism and Communism lies in the solution to the land question.

2. The Free Trade Ideal

Richard Cobden was a pioneer of free trade. With his colleagues, he brought about the abolition of the corn laws in England (restricting the importation of grain) in the 19th century, ushering in an era of relatively free trade and prosperity. Refuting the charge that he was concerned only with material interests, Cobden made the following stirring statement on free trade:

“I have never taken a limited view of the object or scope of this great principle. I have never advocated this question very much as a trader.” “But I have been accused of looking too much to material interests. Nevertheless I can say that I have taken as large and great a view of the effects of this mighty principle as ever did any man who dreamt over it in his own study. I believe that the physical gain will be the smallest gain to humanity from the success of this principle. I look farther; I see in the Free Trade principle that which shall act on the moral world as the principle of gravitation in the universe—drawing men together, thrusting aside the antagonism of race, and creed, and language, and uniting us in the bonds of eternal peace.

“I have looked even farther. I have speculated, and probably dreamt, in the dim future—ay, a thousand years hence—I have speculated on what the effect of the triumph of this principle may be. I believe that the effect will be to change the face of the world, so as to introduce a system of government entirely distinct from that which now prevails. I believe that the desire and the motive for large and mighty empires; for gigantic armies and great navies—for those materials which were used for the destruction of life and the desolation of the rewards of labor—will die away; I believe that such things will cease to be necessary, or to be used, when man becomes one family, and freely exchanges the fruits of his labor with his brother man. . .”

Henry George shared this vision and felt that true free trade would eventually lead to a world federation. Cobden thought that universal free trade would lead to an extension of the municipal type of government, and this is consistent with the ideal of federalism.

George’s **Protection or Free Trade** has often been cited as being the best argument expounded against protectionism. But it is more than that. George saw that free trade had to be

accompanied by something more fundamental: land reform. Cobden too saw the connection. Late in life he said the following to a group of young reformers: “You who liberate the land shall do more for the country than we who liberated its trade.” English laborers also sensed the connection and advocated free trade but also reform of Landlordism. Unfortunately, since free trade by itself did not bring about expected improvements in the condition of labor, England abandoned the policy.

George thought that free trade, once achieved, would reveal the necessity for basic land reform and supported Grover Cleveland for President. But Cleveland supporters were not eager to be known as free traders and changed the slogan, “Don’t, don’t, don’t be afraid - tariff reform is not free trade.”

Free international trade would do much to ease tensions and hostilities in the world today--but beneath these symptoms lie deeper economic problems that must be solved.

True free trade, based upon equal opportunities and equal freedom for all, is a tremendous ideal that in George’s vision would lead to a truly peaceful, free and prosperous world.

Student _____

Questions - Lesson VI - True Free Trade

Based on Protection or Free Trade, Chapters XXV - XXX

True Free Trade

1. What is the “robber that takes all that is left”? (267)
2. Name some other ways in which wealth is diverted from producers to non-producers. (266)
3. What would be the net effect of abolishing all other monopolies except that of the private ownership of land? (268-269)
4. What is it that gives value to land? (272-273)
5. As inventions increase the power to produce wealth, what happens to
(a.) the value of commodities?
(b.) The value of land? (273-274)
6. If labor had free access to good quality land, could the private ownership of capital (buildings & machines, etc) drive wages to a minimum? (275-276)
7. To make free trade beneficial to labor, what basic reform must be adopted? (280)
8. Does common property in land, the natural opportunity, conflict with people’s exclusive right to own the product of their labor? (280)
9. How can we secure equal rights to the use of land? (280-282)
10. What existing machinery can we employ to collect the rent of land for society? (282-283)
11. In addition to collecting the rent of land, what should be done with all other taxes now levied on labor and capital? (283-284)
12. What are the major benefits to be derived from the public collection of the potential rent of land?

13. What is the difference between a tax on land area and a tax on land values?

14. What is true free trade? (286-290)

15. Is a tax on land values really a tax? (288)

16. Would land rent alone be sufficient to cover needed public expenditures?

Georgism and Socialism

17. Why is making land a common opportunity a primary reform? (300)

18. What is the essential scheme of socialism? Also see Supplement) (304)

19. With which ideas of socialism is George in agreement? (203-204)

20. With which ideas of socialism is George in disagreement? (304-308)

21. Compare George's attitude toward competition with the Socialist's.

22. How would taxing the rental value of land improve government? (305-306)

23. Does Henry George advocate appealing to self interest or Justice first?

Answers - Lesson VI - True Free Trade

Based on Protection or Free Trade, Chapters XXV - XXX

True Free Trade

1. What is the "robber that takes all that is left"? Protection, as we have seen, diminishes the results of labor and capital, and enhances the profits of certain non-producers. In that sense Henry George compares it to a robber. However, he says, no matter how much is taken by protection, or any other robber, there is one robber who takes all that is left — "And that robber is private property in land". (267)
2. Name some other ways in which wealth is diverted from producers to non-producers. Besides restrictions on trade, there are unjust taxes, government waste and corruption, monetary inflation, and other monopolies granted to the private sector. (266)
3. What would be the net effect of abolishing all other monopolies except that of the private ownership of land? Production would be stimulated; the economy would expand, and the demand for land (on which and from which production takes place) would increase. Since land cannot be produced, the increased demand for land would continue until its value was equal to all the wealth previously diverted to other non-producers. (268-269)
4. What is it that gives value to land? The value of land arises as its owners are able to take part of the produce of others for permission to live and work upon it. There are natural advantages and those which increase with the advent of population. A community, as a whole, can produce far more than its individual members were they to live and work independently. Exclusive use of land is necessitated by the rights of property in things produced upon it—crops, buildings, factories. However, exclusive control of land, which is superior to that which is free to others is the fundamental inequity. Where land has a speculative value it is because of the expectation that the growth of society in the future will make its ownership equivalent to the ownership of labor. The rental value of land equals the advantage. (272-273)
5. As inventions increase the power to produce wealth, what happens to (a.) the value of commodities? Inventions and discoveries that increase the productive power of labor, lessen the value of the things that require labor for their production. That is to say, wealth. (The price of computers keeps coming down as technologies reduce the amount of labor needed to produce them.)

(b.) The value of land? By contrast, when there is no free land, cheaper products tend to reduce the cost of living, but the value of land goes up. As long as there aren't enough jobs, people will work for the smallest amount they can rather than be unemployed. Therefore, as the cost of products go down, workers are able to work for less, and the rent of land goes up. When there is a free land margin of opportunity, inventions generally increase production disproportionately more on superior land where population is dense. Farm machinery yields a greater result on more fertile land; mining machinery yields a greater result from the richer

veins of ore; automated factories are more efficient where population is dense and greater divisions of labor are possible. Therefore, most inventions increase the value of land. "Where land is fully appropriated as private property no increase in the production of wealth, no economy in its consumption, can give the mere laborer (least demanded) more than the wages of the slave." H.G. (273-274)

6. If labor had free access to good quality land, could the private ownership of capital (buildings & machines, etc) drive wages to a minimum? No. Capital is the product of labor. It is stored up by labor to give it a greater efficiency. If the owners of capital demanded more than the benefit of using existing capital, labor would produce additional capital and use that. (275-276)

7. To make free trade beneficial to labor, what basic reform must be adopted? To make free trade beneficial to labor, a basic reform giving all people equal rights to the land must first be adopted. Only after there is a free land opportunity, and wages are equal to what labor can produce by taking advantage of the natural opportunities that are equally available to all, can any increase in productivity such as Free Trade, raise wages and be beneficial to labor. (280)

8. Does common property in land, the natural opportunity, conflict with people's exclusive right to own the product of their labor? No. Common property in land, the natural opportunity, does not conflict with people's exclusive right to the product of their labor. It enables everyone to own the full results of their labor. It is private property in land that enables one person to take (Legally steal) what another person has produced. (280)

9. How can we secure equal rights to the use of land? by requiring each landholder to pay to the community the rental value of the land they hold. By doing that we may safely leave each landholder undisturbed possession of the land assigned by their their deed, and yet satisfy all other peoples equal rights to the same land—the same natural opportunity. (280-282)

10. What existing machinery can we employ to collect the rent of land for society? The real-estate tax can be used to collect the rent of land for society. It now collects a tax levied on the selling value of land. It need only be changed to collect its rental value. (382-283)

11. In addition to collecting the rent of land, what should be done with all other taxes now levied on labor and capital? They should be abolished. (283-284) George also advocated the socialization of all businesses that are in their nature monopolies—roads, railroads (not necessarily the train companies), highways, water lines, electric and phone wires—and the abolition of all other government granted monopolies.

12. What are the major benefits to be derived from the public collection of the potential rent of land? The major benefits to be derived from the public collection of the potential rent of land are 1. Increased productivity. Non-use and under-use of the most potentially productive land in the private sector would cease. As labor and capital moved to the more productive land, the total results of labor and capital (G.D.P.) would increase. Without idle lands, a greater cooperation and an economy in the infrastructure and public service would result in greater productivity.

2. Full Employment. Since land could no longer be withheld, as long as nature provided enough land capable of yielding more than subsistence, all who were willing and able to work would be employed.

3. Increased wages and Interest. Although the best quality of land would have high values, much of the land would have no value at all. As the productive potential of the free land increased above subsistence, it would raise the general rate of wages and interest. That is because no one will work for someone else unless they are offered more than they could have produced working for themselves.

4. No Taxes on Wages or Interest. Revenues would come from a charge for benefits received. Government would be limited to the socially created values as distinguished from those produced by individuals and private companies.

5. Land rent is a natural source of revenue that increases in Harmony with the increasing needs of social growth.

13. What is the difference between a tax on land area and a tax on land values? With a tax on land area (so many dollars per acre), there is no account of fertility or distance to markets, it is based only on size. With a tax on land area, a Center City merchant would pay a small fraction of what a farmer would pay even though his land and the benefits received from society are many times more valuable. Were there still free-land of good quality, it would be paid at the expense of wages and interest, as it would have to be paid whether the land had value or not.

A land value tax is levied on the value of land only. It taxes only the advantage that each landowners has over non-landowners. It does not tax land unless it will yield more than the wages and interest.

14. What is true free trade? In the view of Henry George, True Free Trade means no impositions (taxes) on production at all. Keep in mind that trade is part of production.

"... free trade cannot logically stop with the abolition of customhouses. It applies as well to domestic as to foreign trade, and in its true sense requires the abolition of all internal taxes that fall on buying, selling, transporting or exchanging, on the making of any transaction or the carrying on of any business, save of course where the motive of the tax is public safety, health or morals. . . . We should . . . give full play to the natural stimulus to production. . . . leaving every one free to make, exchange, give, spend or bequeath."

Henry George Believed that "free trade means free production. Fully to free production it is necessary not only to remove all taxes from production, but also to remove all other restrictions on production. True Free Trade, in short, requires that the active factor of production, Labor, shall have [equal] access to the passive factor of production, Land. To secure this all monopoly of land must be ended, and the equal right of all to the use of the natural elements must be secured by the treatment of the land as the common property in usufruct of the whole people.

Usufruct is the right to use and enjoy something belonging to another as long as the property is not damaged or altered in anyway.) (286-290)

15. Is a tax on land values really a tax? Taxes have often been equated with government confiscation of rightful property. In that sense of a tax, the public collection of land rent would have in common only the fact that it was spent for public purpose. Unlike a confiscatory tax, the public collection of rent would simply be a payment in proportion to the value of the benefits received. (288)

16. Would land rent alone be sufficient to cover needed public expenditures? Yes.

First, if land titles were conditioned upon the payment of its rental value, speculation (non-use and significant under-use of land) would stop. Labor and capital would migrate to the best previously unused and significantly under-used locations. This offers many areas of good land with no demand, and therefore, no value. That offers a free-land alternative place of employment—raising wages and interest everywhere to what workers and capitalists could have produced by utilizing the natural opportunities that are equally available to everyone. As wages and interest go up, land rent everywhere goes down by the same amount.

However, at the same time, migration toward the best and better lands also increases the size and density of the populations on those lands (cities & urban areas) with a greater potential for subdivisions of labor, and economies of the infrastructure and public service. Because the land that is free is sparsely populated, the land in areas with larger and denser populations has a value that takes into account the greater productivity that results from larger and denser populations.

George believed that greater productivity, which accounts for the rental value of land would not only yield ample funds to maintain the infrastructure and public service, but provide for social programs. Today that could be Social Security and government funded healthcare. As populations get bigger and denser, the rent on those particular lands, would provide for the increasing needs of social growth.

To be sure, collecting the rental value of land for public purpose will stop land speculation and increase the per capita (per person) production of the country. Whether wages and interest will receive so much of the increase in production that governments get no more money than they now take in taxes is not certain. But, even if the potential rent of the country were less than current tax revenues are now, then wages and interest would be large enough that individuals could well afford much of what government now provides. If, as George believed, the rent of superior lands provided more than is now taken in taxes, there would be a great surplus of socially created wealth that could be used for things like Social Security, government paid healthcare, and even a cash dividend. With full employment and high wages, welfare, crime, and law and order are likely to cost the government a tiny fraction of what they cost today.

Georgism and Socialism

17. Why is making land a common opportunity a primary reform?

By collecting the rental value of land, it becomes a common opportunity. This is a primary reform because it eliminates the root cause of exploitation and poverty. When other unjust incomes are eliminated, it increases the unjust income from private property in land. When private property in land is eliminated, it does not increase the unjust incomes from other monopolies. Therefore, it is a primary reform and makes all other reform come easier. (300)

18. What is the essential scheme of socialism? Also see Supplement)

That the state (government) should direct the production and distribution of all wealth—and abolish all competition. Socialists maintain that competition is an evil by itself and should be abolished. (304)

19. With which ideas of socialism is George in agreement? That as civilization advances, conditions arise that enlarge the domain of social action. He agrees with socialists in their desire to abolish war and the preparations for war, and to socialize businesses, which are in their nature monopolies. (203-204)

20. With which ideas of socialism is George in disagreement? He disagrees with the socialist proposal to abolish competition and to make the state (government) the sole capitalist and employer. (304-308)

21. Compare George's attitude toward competition with the Socialist's. George differed from the Socialists in his attitude toward competition. He maintains that with free conditions and abundant opportunities, competition would direct labor and capital to their most efficient application—to produce the things each person can produce most efficiently within the demands of the market. He concludes that it is only because of restricted opportunities that competition seems like an evil. (307-308)

22. How would taxing the rental value of land improve government? George's proposal to tax the rental value of land would improve government in two ways: First, by raising wages and improving social conditions, the people would have more time to concern themselves with public policy, and corruption would diminish. And two, they would need far less public revenue for the preservation of order, the administration of justice, and welfare, because there would be full employment and affordable housing. The focus of government would be shifted away from trying to influence the economy, and its primary purpose and obligation would be to collect the socially produced rental value of land. This would insure that land was not hoarded, nor was anyone taking what others produced. Governments could then focus more of their resources on the environment, research and the infrastructure . (305-306)

23. Does Henry George advocate appealing to self interest or Justice first? In order to bring about in a practical way recognition and adoption of his proposal George contends that people's moral sense must be aroused. Justice rather than self interest should be the appeal. Opposition should not be feared, because interest cannot be aroused without it. Practical proposals should be put forth and public discussion of them promoted.

Narrative - Lesson VII - Part II - The Individual and Society

Applied Economics, based on **Social Problems** by Henry George - Chapters I - VII

The Individual and Society

(Relevant page numbers are in parenthesis)

Superior intelligence: The ability to adapt and invent is the human faculty that enables people to overcome the difficulties imposed by nature. (2) ". . . In man, . . . the intelligence which increases all through nature's rising scale passes at one bound into an intelligence so superior, that the difference seems of kind rather than degree. In him, that narrow and seemingly unconscious intelligence that we call instinct becomes conscious reason, and the godlike power of adaptation and invention makes feeble man nature's king.

Trade is the activity that expresses the superior intelligence (faculty) of people in a highly developed civilization. By trade we are able to cooperate and benefit from the specializations and subdivisions of labor; the regional peculiarities of minerals, climates and soil; and the enormous economies of scale, which are the basis for cheap manufactured products. (3)

Human nature has not changed within historical times. "Animal life assumes no higher form; nor can we affirm that, in all his generations, man as an animal, has a whit improved." H.G. (2-3)

For the betterment of humankind we must look toward improvement of society. "Where the development of the species ends, social development commences, and the advance of society that we call civilization so increases human powers, that between savage and civilized man there is a gulf so vast as to suggest the gulf between the highly organized animal and the oyster glued to the rocks. And with every advance upon this line new vistas open. When we try to think what knowledge and power progressive civilization may give to the men of the future, imagination fails." H.G. (2-3)

The division of labor grossly increases the results of labor in a civilized society, but grossly diminishes the individual's economic independence, and increases their interdependence. (4) "Highly civilized man, however, accustomed to capital, to machinery, to the minute division of labor, becomes helpless when suddenly deprived of these and thrown upon nature. Under the factory system, some sixty persons, with the aid of much costly machinery, cooperate to the making of a pair of shoes. But, of the sixty, not one could make a whole shoe. This is the tendency in all branches of production . . ." H.G.

"In the rude beginning, each family produces its own food, makes its own clothes, builds its own house, and when it moves, furnishes its own transportation. Compare with this independence, with the intricate interdependence of the denizens of a modern city. They may supply themselves with greater certainty, and in much greater variety and abundance, than the savage; but it is by the cooperation of thousands. Even the water they drink, the artificial light they use, are brought to them by elaborate machinery, requiring the constant labor and watchfulness of many men. They may travel at a speed incredible to the savage; but in doing so resign life and limb to the care of others. A broken rail, a drunken engineer, a careless

switchman, may hurl them to eternity. And the power of applying labor to the satisfaction of desire passes, in the same way, beyond the direct control of the individual. The laborer becomes part of a great machine, which may at any time be paralyzed by causes beyond his power, or even his foresight. Thus does the well-being of each become more and more dependent upon the well-being of all—the individual more and more subordinate to society." H.G.

In primitive societies there is independence. They may be unaffected by a disaster, only a few miles away. When disaster does strike, the primitive society rebuilds more quickly than the advanced civilization. The advanced civilization is far more productive, but it is affected by every disaster in every region of its commerce—a coffee failure in South America affects the price of coffee in Philadelphia.

As productivity increases, there is a concentration of wealth and power in a small number of people, and the rest of the people are made dependent upon and enslaved by them.

"Strong as it may seem, our civilization is evolving destructive forces. Not desert and forest, but city slums and country roadsides are nursing the barbarians who may be to the new what Hun and Vandal were to the old." . . . This rapid progress is primarily in industrial methods and material powers. But industrial changes imply social changes and necessitate political changes. . . There is growing unrest and bitterness among the masses, whatever be the form of government, a blind groping for escape from conditions becoming intolerable. To attribute all this to the teachings of demagogues is like attributing the fever to the quickened pulse. . . . A civilization which tends to concentrate wealth and power in the hands of a fortunate few, and make of others mere human machines, must inevitably evolve anarchy and bring destruction. But a civilization is possible in which the poorest could have all the comforts and conveniences now enjoyed by the rich; in which prisons and alms houses would be needless, and charitable societies un-thought-of. Such a civilization waits only for the social intelligence that will adapt means to ends. Powers that might give plenty to all are already in our hands. Though there is poverty and want, there is, yet, seeming embarrassment of the very excess of wealth-producing forces. "Give us but a market" say manufacturers, and we will supply goods without end!" "Give us but work!" cry idle men. (7)

". . . Natural science strides forward, but social science lags." H.G. (8) Productivity is increasing, but wages tend to remain static (the same). For example: Robots have been developed to drive trucks, yet the government seems helpless to significantly reduce the rates of unemployment and crime. Medical science continues to find cure after cure for previously fatal disease, while the political problem of affordable housing, continues in many cities.

The duty of the citizen is to concern himself with social affairs. " . . . The progress of civilization requires that more and more intelligence be devoted to social affairs, not the intelligence of the few, but that of the many. We cannot safely leave politics to politicians, or political economy to college professors. The people themselves must think, because the people alone can act." H.G.

"He who observes the law and the proprieties (proper conduct), and cares for his family, yet takes no interest in the general weal, and gives no thought to those who are trodden under foot,

save now and then to bestow alms, is not a true Christian. Nor is he a good citizen. The duty of the citizen is more and harder than this. . . . it must stretch out beyond self-interest, whether it be the self-interest of the few or the many. It must seek justice, For at the bottom of every social problem we will find a social wrong." H.G. (9)

The idea of liberty is instinctive. "Liberty is natural. Primitive perceptions are of the equal rights of the citizen, and political organization always starts from this base." H.G. (12)

The growth of government tends to retard liberty. "It is as social development goes on that we find power concentrating, and institutions based upon the equality of rights passing into institutions which make the many the slaves to the few." H.G. "Thus the tendency of social growth is to make government the business of a special class. And as numbers increase and the power and importance of each become less and less as compared with that of all, so for this reason, does government tend to pass beyond the scrutiny and control of the masses,. the leader of a handful of warriors, or head man of a little village, can command or govern only by common consent, and any one aggrieved can readily appeal to his fellows. But when the tribe becomes a nation and the village expands to a populous country, the powers of the chieftain, without formal addition, become practically much greater. For with increase of numbers scrutiny of his acts becomes more difficult, it is harder and harder successfully to appeal from them, and the aggregate power which he directs becomes irresistible as against individuals. And gradually as power thus concentrates, primitive ideas are lost, and the habit of thought grows up which regards the masses as born but for the service of their rulers. Thus the mere growth of society involves danger of the gradual conversion of government into something independent of and beyond the people, and the gradual seizure of its powers by a ruling class—though not necessarily a class marked off by personal titles and a hereditary status, for as history shows, personal titles and hereditary status do not accompany the concentration of power, but follow it." H.G. (12)

Great aggregations (collections) of wealth corrupt government by buying it. "It is not merely positively, but negatively, that great aggregations (collections) of wealth, whether individual or corporate, tend to corrupt government and take it out of the control of the masses of the people. . . . Great Wealth always supports the party in power, no matter how corrupt it may be. . . . When threatened by the holders of political power it does not agitate, nor appeal to the people; it buys them off. It is in this way, no less than by its direct interference, that aggregated wealth corrupts government . . . So too, these large moneyed interests will subscribe to political funds, on the principle of keeping on the right side of those in power . . . The more corrupt a government the easier wealth can use it . Where legislation is to be bought, the rich make the laws; where justice is to be purchased, the rich have the ear of the courts. And for this reason, great wealth does not absolutely prefer corrupt government to pure government, [but] it becomes none the less a corrupting influence. A community composed of very rich and very poor falls an easy prey to whoever can seize power. The very poor have not spirit and intelligence enough to resist; the very rich have too much at stake. H.G. (13-14)

In a corrupt society, government, despite democratic forms, becomes corrupt. "The rise in the United States of monstrous fortunes, the aggregation (collection) of enormous wealth in the

hands of corporations, necessarily implies the loss by the people of government control. Democratic forms may be maintained, but there can be as much tyranny and misgovernment under democratic forms as any other—in fact, they lend themselves most readily to tyranny and mis-government." H.G. (14-19) "That universal suffrage (all people can vote) may add to instead of decreasing the political power of wealth, we can see, when mill-owners and mine operators vote their hands" (employees). H.G.

In order to secure a sound basis for democratic institutions, there must be a secure opportunity for everyone to earn a living. "The freedom to earn, without fear or favor, a comfortable living, ought to go with the freedom to vote. Thus alone can a sound basis for republican (representative) institutions be secured. (15-16) How can a man be said to have a country where he has no right to a square inch of soil; where he has nothing but his hands, and, urged by starvation, must bid against his fellows for the privilege of using them" H.G. (15-16)

The Past and the Present

The economic importance of the discovery of America was that a large area of sparsely populated land was sufficient to accommodate European migration. "In many respects the discovery of Columbus has proved the most important event in the history of the European world since the birth of Christ. How important America has been to Europe as furnishing an outlet for the restless, the dissatisfied, the oppressed and the downtrodden; how influences emanating from the freer opportunities and freer life of America have reacted upon European thought and life—we can begin to realize only when we try to imagine what would have been the present condition of the World had Columbus found only a watery waste between Europe and Asia, or even had he found here a continent populated as India, or China, or Mexico, were populated." (22-23)

Of the more than 700 thousand square miles of arable land (capable of growing crops) in the United States, all of it is already owned. Although the United States has a density of population that is approximately one fifth that of Great Britain, all the arable land is already owned. "There is not today remaining in the United States any considerable body of good land unsettled and unclaimed, upon which settlers can go with the prospect of finding a homestead on government terms. . . . What I want to point out is that we are very soon to lose one of the most important conditions under which our civilization has been developing—that possibility of expansion over virgin soil that has given scope and freedom to American life, and relieved social pressure in the most progressive European nations. Tendencies, harmless under this condition, may become most dangerous when it is changed. Gun powder does not explode until it is confined." H.G. 1883.

Social beliefs are perpetuated by the tendency to accept what is. "In whatever lies beyond common experience we assume the beliefs of those about us, and it is only the strongest intellects that can in a little raise themselves above the accepted opinions of their times. In a community where that opinion prevailed, the vast majority of us would as unhesitatingly believe that the earth is a plain, supported by a gigantic elephant, as we now believe it a sphere circling round the sun. No theory is too false, no fable too absurd, no superstition too degrading for acceptance when it has become embedded in common belief. . . . In this tendency to accept

what we find, to believe what we are told, is at once good and evil. It is this which makes social advance possible; it is this which makes it so slow and painful. Each generation thus obtains without effort the hard-won knowledge bequeathed to it; it is thus, also, enslaved by errors and perversions which it in the same way receives. (31-33)

There are two opposing tendencies that have resulted from social progress: A keener sense of morality, and an increase in inequality. "Everything tends to awake the sense of natural equality, to arouse the aspirations and ambitions of the masses, to excite a keener and keener perception of the gross injustice of existing inequalities of privilege and wealth. Yet, at the same time, everything tends to the rapid and monstrous increase of these inequalities. . . . Without a single exception that I can think of, the effect of all modern industrial improvements is to production upon a large scale, to the minute division of labor, to the giving to the possession of large capital an overpowering advantage. . . . The tendency of the machine is in everything not merely to place it out of the power of the workman to become his own employer, but to reduce him to the position of a mere attendant or feeder; to dispense with judgment, skill and brains, save in a few overseers; to reduce all others to the monotonous work of automations, to which there is no future save the same unvarying round." (34-35)

Modern mass production methods are exceptionally efficient, but they do not yield the same level of satisfaction as the old system where workers engaged in making complete products. "Under the old system of handicraft, the workman may have toiled hard and long, but in his work he had companionship, variety, the pleasure that comes of the exercise of creative skill, the sense of seeing things growing under his hand to finished form. He worked in his own home or side by side with his employer. . . . With a few tools and a little raw material he was independent. . . . Go now into one of those enormous establishments covering acres and acres, in which workmen by the thousands are massed together, and, by the aid of steam and machinery, iron is converted to its uses at a fraction of the cost of the old system. . . . Here you find men doing over and over the selfsame thing—passing, all day long, bars of iron through great rollers; presenting plates to steel jaws; turning, amid clangor (noise) in which you can scarcely hear yourself think, bits of iron over and back again, sixty times a minute, for hour after hour, for day after day for year after year. In the whole great establishment there will be not a man, save here and there, . . . who can do more than some minute part of what goes to making a salable article. The lad learns in a little while how to attend his particular machine. Then the process stops. He may become gray-headed without learning more. (34-37)

Land and other monopolies have been the basis of most large fortunes. "That he who produces should have, that he who saves should enjoy, is consistent with human reason and with the natural order. But existing inequalities of wealth cannot be justified on this ground. As a matter of fact, how many great fortunes can be truthfully said to have been fairly earned? How many of them represent wealth produced by their possessors or those from whom their present possessors derived them? Did there not go to the formation of all of them something more than superior industry and skill? Such qualities may give the first start, but when fortunes begin to roll up into millions there will always be found some element of monopoly, some appropriation of wealth produced by others. Often there is a total absence of superior industry, skill or self-denial, and merely better luck or greater unscrupulousness." H.G. (51-56 supplement)

SUPPLEMENT LESSON VII

2. The Great American Fortunes

“The element of monopoly, of appropriation and spoliation,” writes Henry George in Chapter VI of **Social Problems**, “will, when we come to analyze them, be found largely to account for all great fortunes.” He gives the examples of the Astors, Vanderbilts and Goulds.

Other examples can also be cited. John D. Rockefeller, through shrewd trading, acquired control of many oil wells. Defying anti-trust laws, and buying political influence, his Standard Oil Co. soon spread throughout the oil resources of the world. The banking house of Morgan had its inception during the Civil War, making huge profits in both North and South, and later reorganizing railroads to prevent competition. The Mellon family started with a small Pittsburgh bank, launched the Aluminum Company of America, in effect, a trust, then branched into oil refining and utilities.

Not all great fortunes originated with land monopoly; many started through trade and industry. They were perpetuated, however, by taking advantage of monopoly, investing in land, etc. Many fortunes were dissipated by the failure to do this. Examples of both may be found in the quick fortunes made by entertainment and sports stars.

Among 20th century fortunes were those of Henry Ford, J. Paul Getty, and H. L. Hunt. Ford’s fortune rose rapidly as his mass-production methods succeeded; this was augmented by investments in natural resources. Getty’s fortune originated from an investment in 1000 acres of Oklahoma oil land by his father; it is now a world-wide empire, with branches in real estate and aircraft manufacturing. The Hunt fortune was similarly based on oil. Succeeding generations of all three are perpetuating these empires.

According to surveys undertaken by **Forbes** magazine, the richest Americans in the 1960s, those with a billion dollars or more, acquired their wealth in three major ways: by inheritance, from real estate and from oil. One example, Donald Trump’s father, built up a New York real estate operation which “Donald” has expanded nationally.

Many of the fortunes have been put to philanthropic uses. Foundations have been formed, research supported, universities and museums endowed. Medicine, education, art and science have benefited (and tax exemption has been gained), but few of these foundations are exploring the causes and cures of our economic and social ills.

“Ninety percent of all millionaires become so through owning real estate. More money has been made in real estate than in all industrial investments combined. The wise young man or wage earner of today invests his money in real estate.” - Andrew Carnegie

“I advise women to invest in real estate. Real estate is an imperishable asset, ever increasing in value. It is the most solid security that human ingenuity has devised. It is the collateral to be preferred above all others, and the safest means of investing money.” - Hetty Green

“Buying real estate is not only the best way and the quickest way, but the only way to become wealthy.” - Marshall Field

“No investment on earth is so safe, so sure, so certain to enrich its owners as undeveloped realty. I always advise my friends to place their savings in realty near some growing city. There is no such savings bank anywhere.” - Grover Cleveland

With taxes on incomes and capital gains, wealthy persons are not eager to talk of their fortunes. But a former generation did, and following are some quotes:

According to Forbes magazine, the Top 10 Industries in which people who were billionaires in 2019 made their fortunes, are as follows,

1. Finance & Investments - 306 billionaires, 14% of the list.
2. Fashion & Retail - 230 billionaires, 11% of the list.
3. Real Estate - 223 billionaires, 10% of the list.
4. Technology - 214 billionaires, 10% of the list.
5. Manufacturing - 188 billionaires, 9% of the list.
6. Diversified- 188 billionaires, 9% of the list.
7. Food & Beverage - 171 billionaires, 8% of the list.
8. Healthcare - 135 billionaires, 6% of the list.
9. Energy - 85 billionaires, 4% of the list.
10. Media & Entertainment - 71 billionaires, 3% of the list.

In 2019, the world's 26 richest people own as much as poorest 50%, says Oxfam, an international organization working to end poverty. This indicates that the wealth possessed by the richest people is not equal to the value of their productive contribution to the total wealth of the world. In other words, it is doubtful if they produced 150 million times as much as each of the poorest 3.5 billion people in the world.

However, another very important thing to keep in mind, can be understood by the person of Bill Gates, who was for some time the richest man in the world. His company was able to dominate the market for software programs used in personal computers. He was said to have nearly a hundred billion dollars in assets. Compare the hundred billion dollars to the increase in productivity from personal computer programs sold by his company and used throughout the economy. You can imagine a small percentage of the benefits went to Bill Gates and company. The rest of it went to the users. Unfortunately, it didn't raise wages and interest. They are for all intents and purposes frozen. Through the higgling of the market, the vast majority of the benefits from personal computer programs went to increase the income from land.

Student _____

Questions - Lesson VII - The Individual and Society

Applied Economics, Part II - based on Social Problems - Based on Chapters I - VII

The Individual and Society

(Relevant page numbers are in parenthesis)

1. What faculty in human beings enables them to overcome the difficulties imposed by nature in making a living? (2)
2. What activity is an expression of this faculty in our highly developed civilization? (3)
3. Has human nature changed within historical times? (2-3)
4. In which direction must we look for the betterment of humankind: toward improvement of the species, or toward improvement of society? (2-3)
5. Does the division of labor in a civilized society diminish economic independence? (4)
6. Is a disaster more quickly recovered from in a primitive or a civilized society; and in which society does a disaster have a far reaching economic consequence?
7. To what may be attributed the growing unrest and bitterness of the masses of the world? (7)
8. Has social science kept pace with natural science? (8)
9. Provide a contemporary example of (a.) a great advance in science or technology.
(b.) an unsolved problem in the social, economic or political realm.
10. According to Henry George, what is the duty of the citizen? (9)

11. Is the idea of liberty acquired or instinctive? (12)
12. How does the growth of government tend to affect liberty? (12)
13. How do great aggregations (collections) of wealth corrupt government? (13-14)
14. In a corrupt society, what happens to government despite democratic forms? (14-19)
15. How can a sound basis for democratic institutions be secured? (15-16)

The Past and the Present

16. What was the economic importance of the discovery of America? (22-23)
17. What has happened to the free land in America?
18. How are social beliefs perpetuated? (31-33)
19. What two opposing tendencies have resulted from social progress? (34-35)
20. Modern mass production methods are exceptionally efficient. Do they yield the same level of satisfaction as the old system where workers made complete products? (34-37)
21. What has been the basis of most large fortunes? (51-56 supplement)

Answers - Lesson VII - The Individual and Society

Applied Economics, Part II - based on Social Problems - Chapters I - VII

The Individual and Society

(Relevant page numbers are in parenthesis)

1. What faculty in human beings enables them to overcome the difficulties imposed by nature in making a living. Superior intelligence: human's ability to adapt and invent. (2)

". . . In man, however, the intelligence which increases all through nature's rising scale passes at one bound into an intelligence so superior, that the difference seems of kind rather than degree. In him, that narrow and seemingly unconscious intelligence that we call instinct becomes conscious reason, and the godlike power of adaptation and invention makes feeble man nature's king.

2. What activity is an expression of this faculty in our highly developed civilization? Cooperation and Trade. Human intelligence is expressed by cooperation. By trade we are able to benefit from the specializations and subdivisions of labor; the regional peculiarities of minerals, climates and soil; and the enormous economies of scale, which are the basis for cheap manufactured products. (3)

3. Has human nature changed within historical times? No. "Animal life assumes no higher form; nor can we affirm that, in all his generations, man as an animal, has a whit improved." H.G. (2-3)

4. In which direction must we look for the betterment of humankind: toward improvement of the species, or toward improvement of society? Improvement of society. "Where the development of the species ends, social development commences, and the advance of society that we call civilization so increases human powers, that between savage and civilized man there is a gulf so vast as to suggest the gulf between the highly organized animal and the oyster glued to the rocks. And with every advance upon this line new vistas open. When we try to think what knowledge and power progressive civilization may give to the men of the future, imagination fails." H.G. (2-3)

5. Does the division of labor in a civilized society diminish economic independence? Yes. The division of labor grossly increases the results of labor, but sacrifices individual independence, and makes each member interdependent. (4) "Highly civilized man, however, accustomed to capital, to machinery, to the minute division of labor, becomes helpless when suddenly deprived of these and thrown upon nature. Under the factory system, some sixty persons, with the aid of much costly machinery, cooperate to the making of a pair of shoes. But, of the sixty, not one could make a whole shoe. This is the tendency in all branches of production . . ." H.G.

"In the rude beginning, each family produces its own food, makes its own clothes, builds its own house, and when it moves, furnishes its own transportation. Compare with this independence, with the intricate interdependence of the denizens of a modern city. They may supply themselves with greater certainty, and in much greater variety and abundance, than the

savage; but it is by the cooperation of thousands. Even the water they drink, the artificial light they use, are brought to them by elaborate machinery, requiring the constant labor and watchfulness of many men. They may travel at a speed incredible to the savage; but in doing so resign life and limb to the care of others. A broken rail, a drunken engineer, a careless switchman, may hurl them to eternity. And the power of applying labor to the satisfaction of desire passes, in the same way, beyond the direct control of the individual. The laborer becomes part of a great machine, which may at any time be paralyzed by causes beyond his power, or even his foresight. Thus does the well-being of each become more and more dependent upon the well-being of all—the individual more and more subordinate to society." H.G.

6. Is a disaster more quickly recovered from in a primitive or a civilized society; and in which society does a disaster have a far reaching economic consequence? A primitive society recovers more quickly, and a civilized society has a far reaching economic consequences.

In primitive societies there is independence. They may be unaffected by a disaster, only a few miles away. When disaster does strike, the primitive society rebuilds more quickly than the advanced civilization. The advanced civilization is far more productive, but it is affected by every natural disaster in every region of its commerce—a coffee failure in South America affects the price of coffee in Philadelphia.

7. To what may be attributed the growing unrest and bitterness of the masses of the world? As productivity increases, there is a concentration of wealth and power in a small number of people, and the rest of the people are made dependent upon and enslaved by them.

"Strong as it may seem, our civilization is evolving destructive forces. Not desert and forest, but city slums and country roadsides are nursing the barbarians who may be to the new what Hun and Vandal were to the old." . . . This rapid progress is primarily in industrial methods and material powers. But industrial changes imply social changes and necessitate political changes. . . There is growing unrest and bitterness among the masses, whatever be the form of government, a blind groping for escape from conditions becoming intolerable. To attribute all this to the teachings of demagogues is like attributing the fever to the quickened pulse. . . . A civilization which tends to concentrate wealth and power in the hands of a fortunate few, and make of others mere human machines, must inevitably evolve anarchy and bring destruction. But a civilization is possible in which the poorest could have all the comforts and conveniences now enjoyed by the rich; in which prisons and alms houses would be needless, and charitable societies un-thought-of. Such a civilization waits only for the social intelligence that will adapt means to ends. Powers that might give plenty to all are already in our hands. Though there is poverty and want, there is, yet, seeming embarrassment of the very excess of wealth-producing forces. "give us but a market" say manufacturers, "and we will supply goods without end!" "Give us but work!" cry idle men. (7)

8. Has social science kept pace with natural science? ". . . Natural science strides forward, but social science lags." (8) Productivity is increasing, but wages tend to remain the same.

9. Provide a contemporary example of (a.) a great advance in science or technology. (b.) an unsolved problem in the social, economic or political realm. For example: Robots have been developed to drive trucks, yet the government seems helpless to significantly reduce the rates of unemployment and crime. Medical science continues to find cure after cure for previously fatal disease, while the political problem of affordable housing, continues in many cities.

10. According to Henry George, what is the duty of the citizen? (9) The duty of the citizen is to concern himself with social affairs. " . . . The progress of civilization requires that more and more intelligence be devoted to social affairs, not the intelligence of the few, but that of the many. We cannot safely leave politics to politicians, or political economy to college professors. The people themselves must think, because the people alone can act." H.G.

"He who observes the law and the proprieties (proper conduct), and cares for his family, yet takes no interest in the general weal, and gives no thought to those who are trodden under foot, save now and then to bestow alms, is not a true Christian. Nor is he a good citizen. The duty of the citizen is more and harder than this. . . . it must stretch out beyond self-interest, whether it be the self-interest of the few or the many. It must seek justice, For at the bottom of every social problem we will find a social wrong." H.G. (9)

11. Is the idea of liberty acquired or instinctive? Instinctive. "Liberty is natural. Primitive perceptions are of the equal rights of the citizen, and political organization always starts from this base." H.G. (12)

12. How does the growth of government tend to affect liberty? It retards it. "It is as social development goes on that we find power concentrating, and institutions based upon the equality of rights passing into institutions which make the many the slaves to the few." H.G.

"Thus the tendency of social growth is to make government the business of a special class. And as numbers increase and the power and importance of each become less and less as compared with that of all, so for this reason, does government tend to pass beyond the scrutiny and control of the masses,. the leader of a handful of warriors, or head man of a little village, can command or govern only by common consent and any one aggrieved can readily appeal to his fellows. But when the tribe becomes a nation and the village expands to a populous country, the powers of the chieftain, without formal addition, become practically much greater. For with increase of numbers scrutiny of his acts becomes more difficult, it is harder and harder successfully to appeal from them, and the aggregate power which he directs becomes irresistible as against individuals. And gradually as power thus concentrates, primitive ideas are lost, and the habit of thought grows up which regards the masses as born but for the service of their rulers. Thus the mere growth of society involves danger of the gradual conversion of government into something independent of and beyond the people, and the gradual seizure of its powers by a ruling class—though not necessarily a class marked off by personal titles and a hereditary status, for as history shows, personal titles and hereditary status do not accompany the concentration of power, but follow it." H.G. (12)

13. How do great aggregations (collections) of wealth corrupt government? They buy it. "It is not merely positively, but negatively, that great aggregations (collections) of wealth, whether individual or corporate, tend to corrupt government and take it out of the control of the masses of the people. . . . Great Wealth always supports the party in power, no matter how corrupt it may be. . . . When threatened by the holders of political power it does not agitate, nor appeal to the people; it buys them off. It is in this way, no less than by its direct interference, that aggregated wealth corrupts government . . . So too, these large moneyed interests will subscribe to political funds, on the principle of keeping on the right side of those in power . . . The more corrupt a government the easier wealth can use it . Where legislation is to be bought, the rich make the laws; where justice is to be purchased, the rich have the ear of the courts. And for this reason, great wealth does not absolutely prefer corrupt government to pure government, [but] it becomes none the less a corrupting influence. A community composed of very rich and very poor falls an easy prey to whoever can seize power. The very poor have not spirit and intelligence enough to resist; the very rich have too much at stake. H.G. (13-14)

14. In a corrupt society, what happens to government despite democratic forms? It becomes corrupt. "The rise in the United States of monstrous fortunes, the aggregation (collection) of enormous wealth in the hands of corporations, necessarily implies the loss by the people of government control. Democratic forms may be maintained, but there can be as much tyranny and misgovernment under democratic forms as any other—in fact, they lend themselves most readily to tyranny and mis-government." H.G. (14-19)

"That universal suffrage (all people can vote) may add to instead of decreasing the political power of wealth, we can see, when mill-owners and mine operators vote their hands" (employees).

15. How can a sound basis for democratic institutions be secured? The opportunity to earn a living. "The freedom to earn, without fear or favor, a comfortable living, ought to go with the freedom to vote. Thus alone can a sound basis for republican (representative) institutions be secured. (15-16) How can a man be said to have a country where he has no right to a square inch of soil; where he has nothing but his hands, and, urged by starvation, must bid against his fellows for the privilege of using them" H.G. (15-16)

The Past and the Present

16. What was the economic importance of the discovery of America? There was a large area of sparsely populated land that was sufficient to accommodate European migration. "In many respects the discovery of Columbus has proved the most important event in the history of the European world since the birth of Christ. How important America has been to Europe as furnishing an outlet for the restless, the dissatisfied, the oppressed and the downtrodden; how influences emanating from the freer opportunities and freer life of America have reacted upon European thought and life—we can begin to realize only when we try to imagine what would have been the present condition of the World had Columbus found only a watery waste between Europe and Asia, or even had he found here a continent populated as India, or China, or Mexico, were populated." (22-23)

17. What has happened to the free land in America? It is gone. "There is not today remaining in the United States any considerable body of good land unsettled and unclaimed, upon which settlers can go with the prospect of finding a homestead on government terms. . . . What I want to point out is that we are very soon to lose one of the most important conditions under which our civilization has been developing—that possibility of expansion over virgin soil that has given scope and freedom to American life, and relieved social pressure in the most progressive European nations. Tendencies, harmless under this condition, may become most dangerous when it is changed. Gun powder does not explode until it is confined." H.G. 1883.

18. How are social beliefs perpetuated? By the tendency to accept what is. "In whatever lies beyond common experience we assume the beliefs of those about us, and it is only the strongest intellects that can in a little raise themselves above the accepted opinions of their times. In a community where that opinion prevailed, the vast majority of us would as unhesitatingly believe that the earth is a plain, supported by a gigantic elephant, as we now believe it a sphere circling round the sun. No theory is too false, no fable too absurd, no superstition too degrading for acceptance when it has become embedded in common belief. . . . In this tendency to accept what we find, to believe what we are told, is at once good and evil. It is this which makes social advance possible; it is this which makes it so slow and painful. Each generation thus obtains without effort the hard-won knowledge bequeathed to it; it is thus, also, enslaved by errors and perversions which it in the same way receives. (31-33)

19. What two opposing tendencies have resulted from social progress? A keener sense of morality, and an increase in inequality. "Everything tends to awake the sense of natural equality, to arouse the aspirations and ambitions of the masses, to excite a keener and keener perception of the gross injustice of existing inequalities of privilege and wealth. Yet, at the same time, everything tends to the rapid and monstrous increase of these inequalities. . . . Without a single exception that I can think of, the effect of all modern industrial improvements is to production upon a large scale, to the minute division of labor, to the giving to the possession of large capital an overpowering advantage. . . . The tendency of the machine is in everything not merely to place it out of the power of the workman to become his own employer, but to reduce him to the position of a mere attendant or feeder; to dispense with judgment, skill and brains, save in a few overseers; to reduce all others to the monotonous work of automations, to which there is no future save the same unvarying round." (34-35)

20. Modern mass production methods are exceptionally efficient. Do they yield the same level of satisfaction as the old system where workers made complete products? No. "Under the old system of handicraft, the workman may have toiled hard and long, but in his work he had companionship, variety, the pleasure that comes of the exercise of creative skill, the sense of seeing things growing under his hand to finished form. He worked in his own home or side by side with his employer. . . . With a few tools and a little raw material he was independent. . . . Go now into one of those enormous establishments covering acres and acres, in which workmen by the thousands are massed together, and, by the aid of steam and machinery, iron is converted to its uses at a fraction of the cost of the old system. . . . Here you find men doing over and over the selfsame thing—passing, all day long, bars of iron through great rollers; presenting plates to steel jaws; turning, amid clangor (loud noise) in which you can

scarcely hear yourself think, bits of iron over and back again, sixty times a minute, for hour after hour, for day after day for year after year. In the whole great establishment there will be not a man, save here and there, . . . who can do more than some minute part of what goes to making a salable article. The lad learns in a little while how to attend his particular machine. Then the process stops. He may become gray-headed without learning more. (34-37)

21. "What has been the basis of most large fortunes? Land and other monopolies. "That he who produces should have, that he who saves should enjoy, is consistent with human reason and with the natural order. But existing inequalities of wealth cannot be justified on this ground. As a matter of fact, how many great fortunes can be truthfully said to have been fairly earned? How many of them represent wealth produced by their possessors or those from whom their present possessors derived them? Did there not go to the formation of all of them something more than superior industry and skill? Such qualities may give the first start, but when fortunes begin to roll up into millions there will always be found some element of monopoly, some appropriation of wealth produced by others. Often there is a total absence of superior industry, skill or self-denial, and merely better luck or greater unscrupulousness." H.G. (51-56 supplement)

Narrative - Lesson VIII - Rights and Wrongs

Applied Economics: Chapters VIII - XII in *Social Problems*, by Henry George written 1883

Some of the answers are taken directly from the text or summarized

Rights and Wrongs

The reason so many people think that poverty is inevitable is because poverty has been so prevalent for so long—and it is reinforced by many religious leaders and political economists. "We are so accustomed to poverty that even in the most advanced countries we regard it as the natural lot of the great masses of the people, that we take it as a matter of course that even in our highest civilization large classes should want the necessities of healthful life, and the vast majority should only get a poor and pinched living by the hardest toil. There are professors of political economy who teach that this condition of things is the result of social laws of which it is idle to complain! There are ministers of religion who preach that this is the condition which an all-wise, all-powerful Creator intended for his children! . . . If there is not wealth sufficient to go around, giving every one abundance, is it because we have reached the limit of the production of wealth? Is our land all in use? is our labor all employed? Is our capital all utilized? On the contrary, in whatever direction we look we see the most stupendous waste of productive forces—of productive forces so potent that were they permitted to play freely, the production of wealth would be so enormous that there would be more than a sufficiency for all". H.G. (72-75)

War gives evidence of great unused productive power because the majority of people live better and consume more during a war, in spite of the waste and destruction of the war "Perhaps nothing shows more clearly the enormous forces of production constantly going to waste than the fact that the most prosperous time in all branches of business that this country has known was during the civil war, when we were maintaining great fleets and armies, and millions of our industrial population were engaged in supplying them with wealth for unproductive consumption or for reckless destruction. It is idle to talk about the fictitious prosperity of those flush times. The masses of the people lived better, dressed better, found it easier to get a living, and had more luxuries and amusements than in normal times. There was more real, tangible wealth in the North at the close than at the beginning of the war. . . . The wealth consumed and destroyed by our fleets and armies came from the then existing stock of wealth. We could have carried on the war without the issue of a single bond, if, when we did not shrink from taking from wife and children their only bread-winner, we had not shrunk from taking the wealth of the rich. . . . The waste of labor in marching and counter-marching, in digging trenches, throwing up earthworks and fighting battles, the waste of wealth consumed or destroyed by our armies and fleets, did not amount to as much as the waste constantly going on from unemployed labor and idle or partially used machinery." H.G. (75-76)

Beneath our social and political maladjustments underlies the distribution of wealth "Whoever considers the political and social problems that confront us, must see that they center in the problem of the distribution of wealth, and he must also see that, though their solution may be simple, it must be radical" (go to the root). "For every social wrong there must be a remedy.

But the remedy can be nothing less than the abolition of the wrong. Halfway measures, mere ameliorations (improvements) and secondary reforms, can at any time accomplish little, and can in the long run avail (achieve) nothing." H.G. (81)

Even if all the land and wealth were redistributed equally, but land remained private property, it would not prevent the recurrence of poverty in the future. It would only be a matter of time before the land would begin to concentrate in the possession of fewer and fewer people and poverty would begin to show itself again. It is undeniable that were land and wealth redistributed equally—under the present conditions of land as private property, land would soon again begin to concentrate in the hands of fewer and fewer people and the inequalities in the fortunes of future generations would tend to reassert themselves. Because we would not be changing the institutions that deliver the maldistribution, the inequality would tend to reassert itself the moment after the redistribution. However, that does not prove that the conditions from which this tendency to inequality springs may not be altered.

There are differences in human qualities and productive potentials, but that does not mean that existing inequalities of fortune are accounted for because of them. (82-83) The just, or natural distribution of wealth is simply that all people receive what they produce (that which results from their exertions). "As to what is the just distribution of wealth there can be no dispute. It is that which gives wealth to him who makes it, and secures wealth to him who saves it. All we need do to secure a just distribution of wealth, is to do that which all theories agree to be the primary function of government—to secure to each the free use of his own powers, limited only by the equal freedom of all others; . . . When we have done this we shall have done all that we can do to make social institutions conform to the sense of justice and to the natural order. " H.G. (83)

"There are only three ways by which any individual can get wealth—by work, by gift or by theft. And, clearly, the reason why the workers get so little is that the beggars and thieves get so much" H.G. (84) This would include subsidies and land rent

According to Henry George, there should be no limit to earned acquisitions (things acquired) as long as they do not involve the robbery of others. "I ask on behalf of the poor nothing whatever that properly belongs to the rich. Instead of weakening and confusing the idea of property, I would surround it with stronger sanctions. Instead of lessening the incentive to the production of wealth, I would make it more powerful by making the reward more certain. Whatever any man has added to the general stock of wealth, or has received of the free will of him who did produce it, let that be his as against all the world—his to use or to give, to do with it whatever he may please, so long as such use does not interfere with the equal freedom of others. For my part, I would put no limit on acquisition (acquiring things). No matter how many millions any man can get by methods which do not involve the robbery of others—they are his: let him have them. I would not even ask him for charity, or have it dinned into his ears that it is his duty to help the poor. . . . If he gets without taking from others, and uses without hurting others, what he does with his wealth is his own business and his own responsibility." H.G. (86-87)

According to Henry George, there is nothing is wrong with the charitable impulse. The wrong with charity is that it is needed on such a large scale in civilized society, and that it is proposed without seeking justice. "Let us first ask what are the natural rights of men, and endeavor to secure them, before we propose either to beg or to pillage." H.G. (87)

What is meant by natural rights, are the universal feelings that are inherently the same within every person. "The universal consciousness that there are rights as between man and man which existed before the formation of government, and which continue to exist in spite of the abuse of government." ". . . that there is a higher law than any human law—to wit (keen perception), the law of the Creator, impressed upon and revealed through nature, which is before and above human laws, and upon conformity to which all human laws must depend for their validity. To deny this is to assert that there is no standard whatever by which the right fullness or wrong fullness of laws and institutions can be measured; to assert that there can be no actions in themselves right and none in themselves wrong; . . ." H.G. references in the Declaration of Independence, the American Constitution, and the French Declaration of the Rights of Man. (92-94)

An equal right to the use of land, and an exclusive right to keep what you produce is implicit in "the natural and unalienable right to life, liberty and the pursuit of happiness" Without these economic rights, no one could live. "The equal, natural and unalienable right to life, liberty and the pursuit of happiness, does it not involve the right of each to the free use of his powers in making a living for himself and his family, limited only by the equal right of all others? Does it not require that each shall be free to make, to save and to enjoy what wealth he may, without interference with the equal rights of others; that no one shall be compelled to give forced labor to another, or to yield up his earnings to another; that no one shall be permitted to extort (to take from a person by force or threat) from another labor or earnings? All this goes without saying. Any recognition of the equal right to life and liberty which would deny the right to property—the right of a man to his labor and to the full fruits of his labor—would be mockery. . . .[But] our institutions fail to secure the rights of men to their labor and the fruits of their labor. . . . a man cannot labor without something to labor on, . . . It is not in human powers to make something out of nothing. . . . Nature tells us that if we will not work we must starve; but at the same time supplies us with everything necessary to work. Food, clothing, shelter, all the articles that minister to desire and that we call wealth, can be produced by labor, but only when the raw material of which they must be composed is drawn from the land. To drop a man in the middle of the Atlantic Ocean and tell him he is at liberty to walk ashore, would not be more bitter irony than to place a man where all the land is appropriated as the property of other people and to tell him that he is a free man, at liberty to work for himself and to enjoy his own earnings. " H.G. (96-99)

People emigrate from one country to another—city or state to another in pursuit of better economic opportunity. In George's day immigration into the U.S. was generally unrestricted. Some immigration was even subsidized. There were no requirements except health. Today, immigration is restricted. Many immigrants must show proof of livelihood (qualified to get, or even have a job).

Over-Production

"Consider this matter of over-production . . . to which is so commonly attributed dullness of trade (poor sales) and the difficulty of finding employment." H.G. (Many economists thought that the depressions of 1873 and 1932 were caused by over-production—many products could not be sold for as much as it cost to produce them.)

Over-production in the absolute sense is impossible, because human desires are unlimited. (117)
"Manifestly there cannot be over-production in any general and absolute sense until desires for wealth are all satisfied, until no one wants more wealth. Relative over-production, of course, there may be.

Relative over production means that certain commodities (products) have been produced so far in excess of their proportion to the production of other commodities that the whole quantity produced cannot be exchanged for enough of those other commodities (products) to give the usual returns to the labor and capital engaged in bringing them to market. This relative over-production is merely disproportionate production." H.G. (117-118 supplement)

There are two ways that relative over-production can occur. "It may proceed from increased production of things of one kind, or from decreased production of things of other kinds. Thus, what we would call an over-production of watches—meaning not that more watches had been produced than were wanted, but that more had been produced than could be sold at a remunerative (profitable) price—would be purely relative. It might arise from an increase in the production of watches, outrunning the ability to purchase watches; or from a decrease in the production of other things, lessening the ability to purchase watches. No matter how much the production of watches were to increase, within the limits of the desire for watches, it would not be over-production, if at the same time the production of other things increased sufficiently to allow a proportionally increased quantity of other things to be given for the increased quantity of watches. And no matter how much the production of watches might be decreased, there would be relative over-production, if at the same time the production of other things were decreased in such proportion as to diminish in greater degree the ability to give other things for watches.

In short, desire continuing, the over-production of particular commodities can be only relative to the production of other commodities (products), and may result from unduly increased production in some branches of industry, or from the checking of production in other branches. But, while the phenomena (occurrence) of over-production may thus arise from causes directly operating to increase production, or from causes directly operating to check production, just as the equipoise (even balance) of a pair of scales may be disturbed by the addition or the removal of a weight, there are certain symptoms by which we may determine from which of these two kinds of causes any disturbance proceeds. For while to a limited extent, and in a limited field, these diverse causes may produce similar effects, their general effects will be widely different" H.G. (118-120)

The effect of a disproportionate increase in production of any one commodity (product) on production generally is to increase it. "The increase of production in any branch of industry

tends to the general increase of production . . . " H.G. (119) "This may be seen from the different general effects which follow increase or diminution (reduction) of production in the same branch of industry. Let us suppose that from the discovery of new mines, the improvement of machinery, the breaking up of combinations (companies that work together) that control it, or any other cause, there is a great and rapid increase in the production of coal, out of proportion to the increase of other production. In a free market the price of coal therefore falls. The effect is to enable all consumers of coal somewhat to increase their consumption of coal, and somewhat to increase their consumption of other things [with money saved on coal], and to stimulate production by reducing cost in all those branches of industry into which the use of coal directly or indirectly enters. Thus the general effect is to increase production, and to beget a tendency to re-establish the equilibrium between the production of coal and the production of other things, by raising the aggregate (total) production." H.G. (119)

The effect of monopolistic curtailment of production in any one industry is to reduce production generally. " . . . let the coal operators and syndicates (an association of companies with a monopoly on producing certain products) as they frequently do, determine to stop or reduce the production of coal in order to raise prices. At once a large body of men engaged in producing coal [are unemployed] find their power of purchasing cut off or decreased. Their demand for commodities they habitually use thus falls off; demand and production in other branches of industry are lessened, and other consumers, in turn, are obliged to decrease their demands. At the same time the enhancement in the price of coal tends to increase the cost of production in all branches of industry in which coal is used, and to diminish the amount both of coal and of other things which the users of coal can call for. Thus the check to production is perpetuated through all branches of industry, and when the re-establishment of equilibrium between the production of coal and the production of other things is effected, it is on a diminished scale of aggregate [total] production."

All trade, it is to be remembered, is the exchange of commodities for commodities (something useful for something useful)—money being merely the measure of values and the instrument for conveniently and economically effecting exchanges. Demand (which is a different thing from desire, as it involves purchasing power) is the asking for things in exchange for an equivalent value of other things. These terms are therefore relative; demand involves supply, and supply involves demand. Whatever increases the quantity of things offered in exchange for other things at once increases supply and augments (increases) demand.

Thus, while the same primary effect upon the relative supply of and demand for any particular commodity or group of commodities may be caused either by augmentation (increase) of the supply of such commodities, or by reduction in the supply of other commodities—in the one case, the general effect will be to stimulate trade, by calling out greater supplies of other commodities, and increasing aggregate demand; and in the other case, to depress trade, by lessening aggregate demand and diminishing supply. " H.G. (119)

The effect of tariffs, taxes and restrictions upon production is to reduce production.

By rewarding labor and capital for producing things they produce less efficiently, in the case of tariffs, or by diminishing the rewards of production by confiscating part of the product in

taxation, or any other obstacles to labor and capital, these actions diminish production. (122-123)

The greatest obstacle to production is the private monopoly of land (property in land). it encourages **land speculation**, withholding land from producers while its selling value increases. (124-126) Nothing can be produced on the land that is idle; less can be produced on land that is under-used in anticipation of higher selling values. And it necessitates confiscatory taxes, which diminish the incentive to produce.

The effect of land speculation is to reduce the production of wealth. It separates people who would find more mutual support and greater efficiency in closer proximity (distance). It increases the cost of roads, utility pipes and wires; It increases the distance and cost of transportation; it creates a selling price in the land that is based on future expectations; it diminishes the amount of capital available for producing; it diminishes the rewards and the incentives to produce, it moves labor and capital to less potentially productive land, reducing the results of labor and capital, and it creates those recurring periods of recession or depression in which production falls because significant portions of labor and capital are idle. (127-128)

In comparing the plausibility of Henry George's theory of the business cycle (recessions & depressions) with others, George explains why and under what conditions the economy and production will fail to expand, and then contract; and under what conditions it will start up again. Other theories generally fail to explain how the owners of labor and capital are prevented from engaging in production. (See supplement)

SUPPLEMENT - LESSON VIII - 1. Population and immigration

In Henry George's day immigration into the U.S. was relatively unrestricted. The Irish immigration was tapering off, the German immigration was at its height, and Italian and Jewish immigration were beginning, soon to reach its height.

The tide of immigration continued without interruption until World War I. One conspicuous exception was the Chinese Exclusion Act. After World War I, immigration was drastically curtailed with each nation given a quota of immigrants. This has now been changed to an over-all quota without respect to nationality—but the immigrant must show proof of support. This has kept immigration down, as the ones who want most to immigrate into the U.S. are those who are poor and want to improve their lot in the “land of opportunity.”

While there was still free and cheap land in America, the country welcomed an unlimited flow of immigrants. With the passing of the frontier, immigration was curtailed because, of unemployment and falling wages. After WWI immigration was further curtailed for fear of radical elements coming into the country—especially inspired by the Russian revolution of 1917. These restrictions continued through WWII.

In spite of poverty in the US, opportunities here have been relatively better than in most countries, and the desire to immigrate is still very strong. It is believed that in 2016 as many as 3 or 4% of the population are in the country illegally. And employers like cheap efficient labor.

While racial prejudice lingers, it is less now than formerly, at least as an official policy, and people from Asia are now entering the U.S. During the Cold War Era, defectors from Communist countries were many and welcomed by the United States.

Henry George noted that the frontier was closing and wondered where Americans could go now that the West Coast was reached: “Our land will not all be used; but it will be all fenced in.” Americans, however, have not shown inclination to emigrate in large numbers. People from other countries still seek entry into the U.S. But the problem of “fenced-in land” confronts both American citizens and immigrants. Instead of focusing on the emigration question, we would do better to solve the land question within our country.

2. Theories of the Business Cycle. Following are the most frequently encountered theories of depressions, recessions and business cycles, and some proposed remedies:

Overproduction Theories: These state that business cycle decline is due to periodical surplus production of goods. Explanations for the cause of overproduction vary (e.g., initial overproduction in agriculture). **Objection:** These theories fail to show why the operation of supply and demand doesn't cause the goods to be taken up.

Under-consumption Theories: These stress failure of consumers to buy goods, or “over-saving.” Redistribution of income to poor would cause more consumption and eliminate business cycle. **Objection:** These theories fail to show why traditional machinery of rate of interest does not prevent depression. If savings increased, rate of interest should fall and the

savings would then be spent on consumer goods, thus leaving no under-consumption.

Monetary Theories: These vary greatly, but they usually state that a boom is due to over-expansion of the money supply (which lowers the rate of interest and stimulates production); and that a slump is due to cessation of expansion causing projects to be abandoned. **Objection:** While money supply may facilitate exchanges and extreme fluctuations cause inconvenience, these theories do not explain why at some times there is an inclination to produce and at other times a cessation of production.

Psychological Theories: They usually contend that the entrepreneur's psychology is the dominating factor. Optimism spreads and leads to expansion. Giving way to pessimism leads to contraction, until something turns pessimism to optimism. **Objection:** This does not explain change from one attitude to another. Businesses do not fail as a result of optimism or pessimism but because people do not have purchasing power.

Cyclical Theories: There are many of these (a famous one was Jevons's sun-spot theory). They contend that there is a time-pattern to business cycles, and that they are more or less inexorable. Their charts profess to show a regularity in the cycle. **Objection:** They are not explanations of the cause. They are observations.

Keynesian Theory: According to this, there is a divergence between planned savings and realized investment. In equilibrium these are equal. If planned saving exceeds planned investment, national income and employment fall. Expansion of money supply is proposed to encourage investment; also called for is "fine-tuning" of taxes and interest rates. **Objection:** This theory focuses on effects rather than causes. It does not explain unwillingness to invest. In Keynesian practice, inflation and unemployment were not supposed to coexist; but they have done so, thus weakening the theory. However, Keynesianism permits tinkering without fundamental change, so it has a continuing appeal.

Georgist Theory: Speculation in land is the root cause of Depressions and Recessions. In anticipation of higher land values (higher offers) in the future, too many landowners refuse to sell. Land sits idle and prevents new workers from joining the workforce. As automation continues to replace workers, the idle land prevents them from being re-employed—further increasing unemployment. The process of bidding up the value of land is accelerated by the extension of credit, and then the withdrawal of credit, which lowers the value of land. This is followed by a period with grossly less land sales, because landowners refuse to sell at lower prices, a stagnant economy, and then increased unemployment, as workers that were replaced by machines, cannot be re-employed, and lose their power to buy the goods and services produced by others—culminating in a recession or depression. Wages and interest fall, new technologies increase productivity, and recovery begins as landowners sell at lower prices.

Objections are hard to find because most economists ignore George's explanation of the business cycle. If they talk about him, they limit their comments to a few words about the "Single Tax." George acknowledged the presence of contributing factors such as money and credit, but contended that land speculation is the basic cause. This theory has the advantage of explaining why production and purchasing power decline and how they recommence.

Student _____

Questions - Lesson VIII - Rights and Wrongs

Applied Economics: Chapters VIII - XII in *Social Problems*, by Henry George written 1883

Some of the answers are taken directly from the text, others are summarized.

Rights and Wrongs

1. Why do so many people think that poverty is inevitable? (72-75)
2. How does a war give evidence of great unused productive power? (75-76)
3. What problem underlies our social and political maladjustments?(81)
4. If all land and wealth were redistributed equally, but land remained private property, would that prevent the recurrence of poverty in the future?(82-83)
5. What is the just, or natural distribution of wealth? (83)
6. What other ways are there of acquiring wealth besides working for it? (84)
7. According to Henry George, should there be any limit to earned acquisitions (things acquired)? (86-87)
8. What is wrong with charity, according to Henry George?(87)
9. What is meant by natural rights? (92-94)
10. What economic rights are implicit in "the natural and unalienable right to life, liberty and the pursuit of happiness? (96-99)
11. Why do people emigrate from one country to another—city or state to another?
12. Compare the conditions of immigration to the U.S. today with those of George's day.

Over-Production

13. Why is over-production in the absolute sense impossible?
14. What is relative over production? (117-118 supplement)
15. In what two ways can relative over-production be caused? (118-120)
16. What is the effect of a disproportionate increase in production of any one commodity (product) on production generally? (119)
17. What is the effect of monopolistic curtailment of production in any one industry? (119)
18. What is the effect of tariffs, taxes and restrictions upon production? (122-123)
19. What is the greatest obstacle to production?
20. What is the effect of land speculation upon the production of wealth? (127-128)
21. Compare the plausibility of Henry George's theory of the business cycle with others. (See supplement)

Answers - Lesson VIII - Rights and Wrongs

Applied Economics: Chapters VIII - XII in *Social Problems*, by Henry George written 1883

Some of the answers are taken directly from the text or summarized

Rights and Wrongs

1. Why do so many people think that poverty is inevitable? Because it has been so prevalent for so long, and judged to be inevitable by many religious leaders and political economists. "We are so accustomed to poverty that even in the most advanced countries, we regard it as the natural lot of the great masses of the people; that we take it as a matter of course that even in our highest civilization large classes should want the necessities of healthful life, and the vast majority should only get a poor and pinched living by the hardest toil. There are professors of political economy who teach that this condition of things is the result of social laws of which it is idle to complain! There are ministers of religion who preach that this is the condition which an all-wise, all-powerful Creator intended for his children! . . . If there is not wealth sufficient to go around, giving every one abundance, is it because we have reached the limit of the production of wealth? Is our land all in use? is our labor all employed? Is our capital all utilized? On the contrary, in whatever direction we look we see the most stupendous waste of productive forces—of productive forces so potent that were they permitted to play freely, the production of wealth would be so enormous that there would be more than a sufficiency for all". H.G. (72-75)

2. How does a war give evidence of great unused productive power? The general population live better and consume more during a war, in spite of the waste and destruction. "Perhaps nothing shows more clearly the enormous forces of production constantly going to waste than the fact that the most prosperous time in all branches of business that this country has known was during the civil war, when we were maintaining great fleets and armies, and millions of our industrial population were engaged in supplying them with wealth for unproductive consumption or for reckless destruction. It is idle to talk about the fictitious prosperity of those flush times. The masses of the people lived better, dressed better, found it easier to get a living, and had more luxuries and amusements than in normal times. There was more real, tangible wealth in the North at the close than at the beginning of the war. . . . The wealth consumed and destroyed by our fleets and armies came from the then existing stock of wealth. We could have carried on the war without the issue of a single bond, if, when we did not shrink from taking from wife and children their only bread-winner, we had not shrunk from taking the wealth of the rich. . . . The waste of labor in marching and counter-marching, in digging trenches, throwing up earthworks and fighting battles, the waste of wealth consumed or destroyed by our armies and fleets, did not amount to as much as the waste constantly going on from unemployed labor and idle or partially used machinery." H.G. (75-76)

3. What problem underlies our social and political maladjustments? The distribution of wealth. "Whoever considers the political and social problems that confront us, must see that they center in the problem of the distribution of wealth, and he must also see that, though their solution may be simple, it must be radical" [go to the root]. "For every social wrong there must

be a remedy. But the remedy can be nothing less than the abolition of the wrong. Halfway measures, mere ameliorations [improvements] and secondary reforms, can at any time accomplish little, and can in the long run avail [achieve] nothing." H.G. (81)

4. If all land and wealth were redistributed equally, but land remained private property, would that prevent the recurrence of poverty in the future? No. It is undeniable that were land and wealth redistributed equally—under the present conditions of land as private property, land would soon again begin to concentrate in the hands of fewer and fewer people and the inequalities in the fortunes of future generations would tend to reassert themselves. Because we would not be changing the institutions that deliver the maldistribution, the inequality would tend to reassert itself the moment after the redistribution. However, that does not prove that the conditions from which this tendency to inequality springs may not be altered. There are differences in human qualities and powers, but that does not mean that existing inequalities of fortune are accounted for because of them. (82-83)

5. What is the just, or natural distribution of wealth? That all people receive what they produce. "As to what is the just distribution of wealth there can be no dispute. It is that which gives wealth to him who makes it, and secures wealth to him who saves it. All we need do to secure a just distribution of wealth, is to do that which all theories agree to be the primary function of government—to secure to each the free use of his own powers, limited only by the equal freedom of all others; . . . When we have done this we shall have done all that we can do to make social institutions conform to the sense of justice and to the natural order. " H.G. (83)

6. What other ways are there of acquiring wealth besides working for it? Gift or theft. "There are only three ways by which any individual can get wealth—by work, by gift or by theft. And, clearly, the reason why the workers get so little is that the beggars and thieves get so much" H.G. (84)

7. According to Henry George, should there be any limit to earned acquisitions (things acquired)? No. "I ask in behalf of the poor nothing whatever that properly belongs to the rich. Instead of weakening and confusing the idea of property, I would surround it with stronger sanctions. Instead of lessening the incentive to the production of wealth, I would make it more powerful by making the reward more certain. Whatever any man has added to the general stock of wealth, or has received of the free will of him who did produce it, let that be his as against all the world—his to use or to give, to do with it whatever he may please, so long as such use does not interfere with the equal freedom of others. For my part, I would put no limit on acquisition [acquiring things]. No matter how many millions any man can get by methods which do not involve the robbery of others—they are his: let him have them. I would not even ask him for charity, or have it dinned into his ears that it is his duty to help the poor. . . . If he gets without taking from others, and uses without hurting others, what he does with his wealth is his own business and his own responsibility." H.G. (86-87)

8. What is wrong with charity, according to Henry George? Nothing is wrong with the charitable impulse The wrong is that charity is needed on such a large scale in civilized society

and that it is proposed without seeking justice. "Let us first ask what are the natural rights of men, and endeavor to secure them, before we propose either to beg or to pillage." H.G. (87)

9. What is meant by natural rights? The feeling of rights that are universally the same and inherently felt within every person. "The universal consciousness that there are rights as between man and man which existed before the formation of government, and which continue to exist in spite of the abuse of government." ". . . that there is a higher law than any human law—to wit [keen perception], the law of the Creator, impressed upon and revealed through nature, which is before and above human laws, and upon conformity to which all human laws must depend for their validity. To deny this is to assert that there is no standard whatever by which the right fullness or wrong fullness of laws and institutions can be measured; to assert that there can be no actions in themselves right and none in themselves wrong; . . ." Henry George. He references in the Declaration of Independence, the American Constitution, and the French Declaration of the Rights of Man. (92-94)

10. What economic rights are implicit in "the natural and unalienable right to life, liberty and the pursuit of happiness? An equal right to the use of land and an exclusive right to keep what you produce. "The equal, natural and unalienable right to life, liberty and the pursuit of happiness, does it not involve the right of each to the free use of his powers in making a living for himself and his family, limited only by the equal right of all others? Does it not require that each shall be free to make, to save and to enjoy what wealth he may, without interference with the equal rights of others; that no one shall be compelled to give forced labor to another, or to yield up his earnings to another; that no one shall be permitted to extort [to take from a person by force or threat] from another labor or earnings? All this goes without saying. Any recognition of the equal right to life and liberty which would deny the right to property—the right of a man to his labor and to the full fruits of his labor—would be mockery. . . .[But] our institutions fail to secure the rights of men to their labor and the fruits of their labor. . . . a man cannot labor without something to labor on, . . . It is not in human powers to make something out of nothing. . . . Nature tells us that if we will not work we must starve; but at the same time supplies us with everything necessary to work. Food, clothing, shelter, all the articles that minister to desire and that we call wealth, can be produced by labor, but only when the raw material of which they must be composed is drawn from the land. To drop a man in the middle of the Atlantic Ocean and tell him he is at liberty to walk ashore, would not be more bitter irony than to place a man where all the land is appropriated as the property of other people and to tell him that he is a free man, at liberty to work for himself and to enjoy his own earnings. " H.G. (96-99)

11. Why do people emigrate from one country to another—city or state to another? People emigrate in pursuit of better economic opportunity.

12. Compare the conditions of immigration to the U.S. today with those of George's day. In George's day, immigration to the U.S. was unrestricted. Some immigration was subsidized. There were no immigration requirements except health. Today, immigration is restricted. The immigrant must show proof of livelihood (qualified to get, or even have a job).

Over-Production

"Consider this matter of over-production . . . to which is so commonly attributed dullness of trade (poor sales) and the difficulty of finding employment." H.G. (Many economists thought that the depressions of 1873 and 1932 were caused by over-production—many products could not be sold for as much as it cost to produce them.)

13. Why is over-production in the absolute sense impossible?

Because human desires are unlimited. (117) "Manifestly there cannot be over-production in any general and absolute sense until desires for wealth are all satisfied; until no one wants more wealth. Relative over-production, of course, there may be.

14. What is relative over production? The production of certain commodities so far in excess of their proportion to the production of other commodities (products) that the whole quantity produced cannot be exchanged for enough of those other commodities (products) to give the usual returns to the labor and capital engaged in bringing them to market. But this relative over-production is merely disproportionate production." H.G. (117-118 supplement)

15. In what two ways can relative over-production be caused? "It may proceed from increased production of things of one kind, or from decreased production of things of other kinds. Thus, what we would call an over-production of watches—meaning not that more watches had been produced than were wanted, but that more had been produced than could be sold at a remunerative (profitable) price—would be purely relative. It might arise from an increase in the production of watches, outrunning the ability to purchase watches; or from a decrease in the production of other things, lessening the ability to purchase watches. No matter how much the production of watches were to increase, within the limits of the desire for watches, it would not be over-production, if at the same time the production of other things increased sufficiently to allow a proportionally increased quantity of other things to be given for the increased quantity of watches. And no matter how much the production of watches might be decreased, there would be relative over-production, if at the same time the production of other things were decreased in such proportion as to diminish in greater degree the ability to give other things for watches.

In short, desire continuing, the over-production of particular commodities can be only relative to the production of other commodities (products), and may result from unduly increased production in some branches of industry, or from the checking of production in other branches. But, while the phenomena (occurrence) of over-production may thus arise from causes directly operating to increase production, or from causes directly operating to check production, just as the equipoise (even balance) of a pair of scales may be disturbed by the addition or the removal of a weight, there are certain symptoms by which we may determine from which of these two kinds of causes any disturbance proceeds. For while to a limited extent, and in a limited field, these diverse causes may produce similar effects, their general effects will be widely different" H.G. (118-120)

16. What is the effect of a disproportionate increase in production of any one commodity (product) on production generally? To increase it. "The increase of production in any branch of industry tends to the general increase of production . . . " H.G. (119) "This may be seen from the different general effects which follow increase or diminution (reduction) of production in the same branch of industry. Let us suppose that from the discovery of new mines, the improvement of machinery, the breaking up of combinations (companies that work together) that control it, or any other cause, there is a great and rapid increase in the production of coal, out of proportion to the increase of other production. In a free market the price of coal therefore falls. The effect is to enable all consumers of coal somewhat to increase their consumption of coal, and somewhat to increase their consumption of other things [with money saved on coal], and to stimulate production, by reducing cost, in all those branches of industry into which the use of coal directly or indirectly enters. Thus the general effect is to increase production, and to beget a tendency to re-establish the equilibrium between the production of coal and the production of other things, by raising the aggregate (total) production." H.G. (119)

17. What is the effect of monopolistic curtailment of production in any one industry? To reduce production generally. " . . . let the coal operators and syndicates (an association of companies with a monopoly on producing certain products) as they frequently do, determine to stop or reduce the production of coal in order to raise prices. At once a large body of men engaged in producing coal [are unemployed] find their power of purchasing cut off or decreased. Their demand for commodities they habitually use thus falls off; demand and production in other branches of industry are lessened, and other consumers, in turn, are obliged to decrease their demands. At the same time the enhancement in the price of coal tends to increase the cost of production in all branches of industry in which coal is used, and to diminish the amount both of coal and of other things which the users of coal can call for. Thus the check to production is perpetuated through all branches of industry, and when the re-establishment of equilibrium between the production of coal and the production of other things is effected, it is on a diminished scale of aggregate production."

All trade, it is to be remembered, is the exchange of commodities for commodities—money being merely the measure of values and the instrument for conveniently and economically effecting exchanges. Demand (which is a different thing from desire, as it involves purchasing power) is the asking for things in exchange for an equivalent value of other things. These terms are therefore relative; demand involves supply, and supply involves demand. Whatever increases the quantity of things offered in exchange for other things at once increases supply and augments (increases) demand.

Thus, while the same primary effect upon the relative supply of and demand for any particular commodity or group of commodities may be caused either by augmentation (increase) of the supply of such commodities, or by reduction in the supply of other commodities—in the one case, the general effect will be to stimulate trade, by calling out greater supplies of other commodities, and increasing aggregate demand; and in the other case, to depress trade, by lessening aggregate demand and diminishing supply. " H.G. (119)

18. What is the effect of tariffs, taxes and restrictions upon production? To reduce it. By rewarding labor and capital for producing things they produce less efficiently, in the case of tariffs, or by diminishing the rewards of production by confiscating part of the product in taxation, or any other obstacles to labor and capital, these actions diminish production. (122-123)
19. What is the greatest obstacle to production? The private monopoly of land (property in land). it encourages land speculation, withholding land from producers while its selling value increases (124-126) Nothing can be produced on the land that is idle; less can be produced on land that is under-used in anticipation of higher selling values. And it necessitates confiscatory taxes, which diminish the incentive to produce.
20. What is the effect of land speculation upon the production of wealth? It separates people who would find more mutual support and greater efficiency in closer proximity (distance). It increases the cost of roads, utility pipes and wires; It increases the distance and cost of transportation; it creates a selling price in the land that is based on future expectations; it diminishes the amount of capital available for producing; it diminishes the rewards and the incentives to produce, it moves labor and capital to less potentially productive land, reducing productivity, and it creates those recurring periods of recession or depression in which production falls because significant portions of labor and capital are idle. (127-128)
21. Compare the plausibility of Henry George's theory of the business cycle with others. George's theory explains why and under what conditions the economy and production will fail to expand, and then contract; and under what conditions it will start up again. Most other theories fail to explain how the owners of labor and capital are prevented from engaging in production. (See supplement)

Narrative - Lesson IX - Public Debts; Functions of Government

Applied Economics: Chapters XIII - XVII in *Social Problems*, by Henry George written 1883

Answers are taken from the text—or summarized from the text.

Employment and Inventions

The competition of employers for laborers is not as great as the competition for laborers to find employment, because there are more laborers in need of work than there is land that is needed and available to employ them. "For the production of wealth labor must have access to pre-existing substances and natural forces. Man has no power to make something out of nothing. He cannot create an atom of matter or initiate the slightest motion. Vast as are his powers of modifying matter and utilizing forces, they are merely powers of adapting, changing, or re-combining what previously exists." H.G.

"That the supply of labor seems to exceed the demand for labor, springs from difficulties that prevent labor finding employment for itself—from the barriers that fence labor off from land. That there is a surplus of labor in any one occupation arises from the difficulty of finding employment in other occupations, but for which the surplus would be immediately drained off. When there was a great demand for clerks no bookkeeper could suffer for want of employment; and so on down to the fundamental employment's which directly extract wealth from land, the opening of which opportunities for labor to employ itself would soon drain off any surplus in derivative occupations." H.G. (131-132,138)

Suppose people were freed from their dependence upon land. There would be no unemployment problem. "What is inexplicable, if we lose sight of man's absolute and constant dependence upon land, is clear when we recognize it. . . . Variations there might be in the demand for particular commodities or services, which would produce variations in the demand for labor in different occupations, and cause wages in those occupations somewhat to rise above or fall below the general level, but the ability of labor to employ itself, the freedom of indefinite expansion in the primary employments, would allow labor to accommodate itself to these variations, not merely without loss of suffering, but so easily that they would be scarcely noticed. . . .

Where, however, labor could always employ itself, the disadvantage in any conflict would be on the side of employers, while that surplus of the unemployed which enables employers to make such advantageous bargains with labor would not exist. The man who wanted to get others to work for him would not find men crowding for employment. He would find all labor already employed, and in order to tempt them into his employment, he would have to offer higher wages, than the men he wanted, could make for themselves." H.G. (133-135)

It is not necessary for all people to work directly on the land in the extractive industries (farming, mining, timber, etc) in order to prevent unemployment, but enough would that others could work in manufacturing and commerce. "Not that every unemployed mechanic, or operative, or clerk, could or would get himself a farm; but that from all the various occupations enough would take themselves to the land to relieve any pressure for employment." H.G. (138)

The general conditions that contribute to the popular idea that inventions cause unemployment, is the displacement of workers that follow inventions, and the fact that they do not find it easy get re-employed. Inventions replace workers, who are free to work other places, but all the displaced

workers do not soon get other jobs, and they are not skilled at other jobs for which they may be re-employed. So, often the wages of displaced workers are less when they are re-employed. Even in the best of times, there is a segment of people who are unemployed, (unemployable). Often, inventions result in certain people becoming unemployed, even if others find employment. Recessions and depressions usually come after a period of great invention. The completion of the transcontinental rail road in 1869, the depression in 1873; the automobile assembly line in 1913, which over the next 17 years, led to assembly line production of everything that could be sold in mass quantities, and the depression of the 1930s; The proliferation of personal computers and modular buildings in the 1980s and the down sizing of the early 1990s. The internet and robotics at the turn of the 21st century, and the Great Recession in 2008. (139-140)

A labor-saving invention in one industry increases the productive power of all labor. It enables more to be sold at lower prices, or, the lower prices enable more to be purchased from other industries. Therefore, it increases the production of products in the one industry with the labor-saving invention, and all other industries from which people buy things with the savings from the cheaper products made possible with the labor-saving invention. "When the division of labor has taken place, and different parts of production are taken by different individuals, the gain obtained by any labor-saving improvement in one branch of production will, in like manner, be averaged with all. If, for instance, improvements be made in the weaving of cloth and the working of iron, the effect will be that a bushel of grain will exchange for more cloth and the same quantity of all the things he wants with less labor, or a somewhat greater quantity with the same labor. And so with all other producers." H.G.

As a greater result is achieved, for example, in making shoes, more shoes are made in order to get more of all the things that can be exchanged for shoes. As more shoes are offered for sale, the value (price) begins to drop. The supply of shoes will increase until the labor and capital get no greater reward on average than they would get producing other things. At that point all other things will then exchange for a greater number of shoes than before. In other words: As the price of anything you buy goes down in relation to the price of the things you make and sell, your productivity has increased. (140-142)

Under the present conditions all the increased production due to labor-saving devices ultimately accrues to the owners of land. "The great gains made by particular capitalists in the utilization of improvements, are not the gain of capital, but generally the gains of monopoly, though sometimes they may be gains of adventure or of management. The rate of interest, which is the measure of the earnings of capital, has not increased with all the enormous labor saving improvements of our century; on the contrary, its tendency has been to diminish. But the requirement of larger amounts of capital, which is generally characteristic of labor-saving improvements, may increase the facility with which those who have large capitals can establish monopolies that enable them to intercept what would naturally go to labor." H.G.

"While labor saving improvements increase the power of labor, no improvement or invention can release labor from its dependence upon land. Labor-saving improvements only increase the power of producing wealth from land. And land being monopolized as the private property of certain persons, who can thus prevent others from using it, all these gains, which accrue primarily to labor, can be demanded from labor by the owners of land, in higher rents and higher prices Thus, as we

see it, the march of improvement and invention has neither raised interest nor wages, but its general effect has everywhere been to increase the value of land. Where an increase of wages has been won, it has been by combination, or the concurrence of special causes; . . ." H.G. (142-144)

If all social services were furnished free to the public, the ultimately benefit would be gained by the owners of land. "Supposing the very rich men of New York were to become suddenly imbued with that public spirit which shows itself in the Astor Library and the Cooper Institute and that it should become among them a passion, leading them even to beggar themselves in the emulation to benefit their fellow-citizens. supposing such a man as Mr. Gould were to make the elevated roads free, were to assume the cost of the Fire Department, and give every house a free telephone connection; and Mr. Vanderbilt, not go be outdone, were to assume the cost of putting down good pavements, and cleaning the streets, and running the horse-cars for nothing; while the Astors were to build libraries in every ward. Supposing the fifty, twenty, ten, and still smaller millionaires, seized by the same passion, were singly or together, at their own cost, to bring in plentiful supplies of water; to furnish heat, light and power free of charge; to improve and maintain the schools; to open theaters and concerts to the public; to establish public gardens and baths and markets; to open stores where everything could be bought at retail for the lowest wholesale price; in short, were to do everything that could be done to make New York a cheap and pleasant place to live in? The result would be that New York being so much more desirable a place to live in, more people would desire to live in it, and the landowners could charge so much the more for the privilege. All these benefactions would increase rent." H.G. (144-145)

Chattel slavery arises under conditions where land is cheap and wages are high. "Chattel slavery is, in fact, merely the rude and primitive mode of property in man. It only grows up where population is sparse; it never, save by virtue of special circumstances, continues where the pressure of population gives land a high value, for in that case the ownership of land gives all the power that comes from the ownership of men, in more convenient form." H.G.

Where land is dear and labor is cheap, chattel slavery ceases to exist. "English ships carried Negro slaves to America, and not to England or Ireland, because there, land was valuable and labor was cheap. As soon as the possibility of expansion over new land ceased, chattel slavery would have died out in our Southern States. As it is, Southern planters do not regret the abolition of slavery. They get out of the freed men as tenants as much as they got out of them as slaves. . . .

To the English proprietor, the ownership of slaves would be only a burden and a loss, when he can get laborers for less than it would cost to maintain them as slaves, and when they become ill or infirm, can turn them on the parish. Or what would the New England manufacture gain by the enslavement of his operatives? The competition with each other of so-called freemen, who are denied all right to the soil of what is called **their** country, brings him labor cheaper and more conveniently than would chattel slavery. . . . By making property of the land instead of the person, much care, supervision and expense are saved the proprietors; and though no particular slave is owned by a particular master, yet the one class still appropriates the labor of the other class as before." H.G. (149-151)

Chattel slavery, as compared to the slavery that results from private property in land, is more efficient and profitable. "Unable to employ themselves, the nominally free laborers are forced by their competition with each other to pay as rent all their earnings above a bare living, or to sell their

labor for wages which give but a bare living; and as landowners the ex-slaveholders are enabled as before, to appropriate to themselves the labor or the produce of their former chattels, having in the value which this power of appropriating the proceeds of labor gives to the ownership of land, a capitalized value equivalent, or more than equivalent, to the value of their slaves. They no longer have to drive their slaves to work; want and the fear of want do that more effectively than the lash. They no longer have the trouble of looking out for their employment or hiring out their labor, or the expense of keeping them when they cannot work. That is thrown upon the slaves. The tribute that they still wring from labor seems like voluntary payment. In fact, they take it as their honest share of the rewards of production—since they furnish the land! And they find so-called political economists, to say nothing of so-called preachers of Christianity, to tell them it is so." H.G. (157-160)

Public Debts and Indirect Taxation

Public debts and indirect taxation strengthen the land monopoly by reducing or eliminate the cost of holding land (owning) land, while governments, by selling bonds, can spend countless funds waging needless wars and making other wasteful expenditures without raising taxes in the short-run or requiring anything from the owners of land. " . . . by the institution of indirect taxes and public debts the great landholders were enabled to throw off on the people at large the burdens which constituted the condition on which they held their lands, . . ." H.G. (Reference: English Civil Wars.) (161-162)

The public debts of one generation should not be binding on another generation. "If a man were to come to me and say, Here is a promissory note which your great-grandfather gave to my great-grandfather, and which you will oblige me by paying, I would laugh at him, and tell him that if he wanted to collect his note he had better hunt up the man who made it; that I had nothing to do with my great-grandfather's promises. And if he were to insist upon payment and to call my attention to the terms of the bond in which my great-grandfather expressly stipulated with his great-grandfather that I should pay him, I would only laugh the more, and be the more certain that he was a lunatic. To such a demand any one of us would reply in effect, My great-grandfather was evidently a knave or a joker and your great-grandfather was certainly a fool, which quality you surely have inherited, if you expect me to pay you money because My great-grandfather promised that I should do so. He might as well have given your great-grandfather a draft upon Adam or a check upon the First National Bank of the Moon. Yet upon this assumption that ascendants may bind descendants, that one generation may legislate for another generation, rest the assumed validity of our land titles and public debts." H.G. (162-163)

"Public debts are not a device for borrowing from the future, for compelling those yet to be, to bear a share in expenses which a present generation may choose to incur. That is, of course, a physical impossibility. They are merely a device for obtaining control of wealth in the present by promising that a certain distribution of wealth in the future shall be made—a device by which the owners of existing wealth are induced to give it up under promise, not merely that other people shall be taxed to pay them, but that other people's children or the children of their assigns." H.G. (162-163)

By incurring public debts, large sums can be amassed and spent long before taxes must be raised to pay for them. This fosters corrupt expenditures and war "Those who get control of governments are thus enabled to get sums which they could not get by immediate taxation without arousing the

indignation and resistance of those who could make the most effective resistance. Thus tyrants are enabled to maintain themselves, and extravagance and corruption are fostered. If any cases can be pointed to in which the power to incur public debts has been in any way a benefit, they are as nothing compared with the cases in which the effects have been purely injurious." H.G. (163-167)

Indirect taxes are favored by special interests because extra profits are made when they are shifted to the consumer, and in cases where the tax must be paid in advance, it gives an advantage to those who have large capitals. For example, to sell alcohol, tobacco and gasoline, the retailer must pay the tax when purchasing the item, and then recoup the tax plus a profit on the investment in the tax when selling to the consumer. So, it costs the consumer more than the merchant has paid for the item and the tax. (165-170)

The Functions of Government

"The first and main purpose of government is admirably stated in the grand document which Americans so honor and so ignore—The Declaration of Independence. It is to secure to men those equal and unalienable rights with which the Creator has endowed them." H.G. (171-172)

Government can be simplified, first by asserting the equal right to land, eliminating wastefulness in the armed forces, simplifying the legal machinery, and the electoral methods. (172-175)

Governmental attempts to legislate virtue have encouraged evasion and brought the law into contempt. They have reduced the standards of right and wrong to a legal question, and encouraged the rogue (a dishonest or unprincipled man) who can stay just within the law. (A classic example was Prohibition.) (173-174)

Henry George says that governments should take over all businesses that are in their nature monopolies, and abolish all other government granted monopolies. In the United States today, some business that are in their nature monopolies, like the roads, highways and the passenger train tracks (Amtrak) are owned by the government. This Henry George advocated. He thought that if the tracks were owned by the government, the train companies might be able to compete with train service. The majority of freight rail road tracks, electric, gas, water, phone, and internet pipes and wires are privately owned and recognized as monopolies. For that reason they are regulated. However, as George suggested over a hundred years ago, they are difficult to control, they tempt corruption, and they have undue influence in government. They should be owned and run by the government. (176-189)

Supplement Lesson IX

The Functions of Government

Government is that part of organized society which should be concerned with the formulation, maintenance, interpretation, and enforcement of human laws. These laws are binding on all citizens, including members of the government. Internally, government acts (or should act) to secure justice among citizens and to arbitrate disputes that arise out of the association of people in business and society. Externally, it acts to prevent and resist invasion, while seeking to maintain peace and cooperation with other nations. The main business of Government is justice for all and special privilege for none.

If special privileges are granted, as in the title to land, the full value of the privilege should be paid to the government. The location value of land is inherently a special privilege, since the landowner has done nothing to produce it. Other special privileges like public utilities, transportation franchises, and radio and television wavelengths in which there cannot reasonably be competition require special consideration.

Henry George thought that “businesses which are in their nature monopolies”, in which there could not reasonably be competition should be governmentally owned and operated. In this category he placed public utilities and railroads, as well as the postal service, public schools and the issuance of money. Many who agree with George on land value taxation do not agree with him on this point. They say that some of these business should be left to private enterprise; they point to the inefficiency too often associated with governmental operations; and they warn against too much governmental power. George’s defenders point out that our privately owned and operated railroads (monopolies) were a failure, and government railroads in Western Europe and Japan (which are otherwise capitalistic countries) are much more efficient and satisfactory.

Georgists believe that competition is the best treatment, if it can be established, but this can not always be the case. It would not be practical to have unlimited competition with dozens of competing cables running down every street for electric, and internet, or the same thing with pipes carrying water, and gas. Therefore, that infrastructure should be built and managed by the government. At the same time, it might be possible to have competition in some cases for the gas, water, electric, information, and entertainment content that goes through the pipes and wires that are provided by society.

Today Charter schools are proliferating as private non-profit organizations competing for public funds. The hypothesis is that competition will deliver a higher quality of publicly funded education. However, as long as the government is funding it, the elected officials are responsible for cost and the quality of education. Therefore, many people believe that the government should operate the schools.

Private companies like UPS, FED EX, and others are presently competing in the package delivery service. That suggests that the government need not be in the package delivery service.

It may be noted that a monopoly of capital, in contrast to a monopoly of land, does not always remain as complete a monopoly as it once was. Such is certainly the case with the passenger railroads. They have since had to meet with competition from automobiles and airplanes.

In mass communications, such as radio, television and satellite communications, the exclusive use of a natural resource, i.e. wavelengths and space, are involved. As long as there are free-land wavelengths available for all others at the margin, paying the government the rental value for the monopoly or exclusive possession of superior wavelengths would be consistent with the Single Tax. However, if there are no free wavelengths and all communications must go through wavelengths that are monopolized, then like the cables and pipes that run along the streets, they must be maintained by the government for the equal access of all at the cost of providing them.

In the United States there are several levels of government. At which level of government the land rent should be collected and how it should be apportioned among each level, Federal, state, county, and municipal is still being debated. Certainly each level of government has provided infrastructure and public service, without which people would not remain and the value of land would fall. Exactly how the rent of land should be shared and which level of government should do the rental value assessments of the land is not completely clear to every proponent of the Single Tax. However, once there is a general consensus on the principles, time and energy can be applied to analyzing these and other questions regarding the best method of application.

Student _____

Questions - Lesson IX - Public Debts; Functions of Government

Applied Economics: Chapters XIII - XVII in *Social Problems*, by Henry George written 1883

Answers are taken from the text. When that was difficult the text was summarized.

Employment and Inventions

1. Why is the competition of employers for labor not as great as the competition of laborers to find employment? (131-132, 138)
2. Suppose people were freed from their dependence upon land. Would there be an unemployment problem? (133-135)
3. Must we all go to work directly on the land in the extractive industries in order to prevent unemployment? (138)
4. What general conditions contribute to the popular idea that inventions cause unemployment? (139-140)
5. How does a labor-saving invention in one industry increase the productive power of all labor? (140-142)
6. To whom does the increased production due to labor-saving devices ultimately accrue under present conditions? (142-144)
7. If all social services were furnished free to the public, who would ultimately benefit? (144-145)
8. Under what conditions does chattel slavery arise?

(b.) Under what conditions does it cease (149-151; supplement)
9. Compare chattel slavery with the slavery that results from private property in land. (157-160)

Public Debts and Indirect Taxation

10. How do public debts and indirect taxation strengthen the land monopoly? (161-162)

11. Should the debts of one generation be binding on another generation? (162-163)
12. Are public debts a device for borrowing from future production? (162-163)
13. How do public debts foster corruption and war? (163-167)
14. Why are indirect taxes favored by special interests? (165-170)

The Functions of Government

15. What is the primary purpose of government? (171-172)
16. In what ways can government be simplified? (172-175)
17. What are the results of governmental attempts to legislate virtue? (173-174)
18. What does Henry George say government should do about business which are in their nature monopolies? (176-189)
19. Taking note of Henry George's views (p. 178-193) and part 2 of the supplement, offer your own views on which functions might be performed by government and which by private enterprise. And consider if some monopolies should be granted by the government—copy rights, patents, medical licenses, etc.

Government, Private, Both

a) Money

b) Railroads

c) Postal service

d) Schools

e) Public utilities

f) Mass communications (Cell phone, internet)

Answers - Lesson IX - Public Debts; Functions of Government

Applied Economics: Chapters XIII - XVII in **Social Problems**, by Henry George written 1883

Answers are taken from the text. When that was difficult the text was summarized.

Employment and Inventions

1. Why is the competition of employers for labor not as great as the competition of laborers to find employment? (131-132, 138) Because there are more laborers in need of work than there is land that is needed and available to employ them. "For the production of wealth labor must have access to pre-existing substances and natural forces. Man has no power to make something out of nothing. He cannot create an atom of matter or initiate the slightest motion. Vast as are his powers of modifying matter and utilizing forces, they are merely powers of adapting, changing, or re-combining what previously exists." H.G.

"That the supply of labor seems to exceed the demand for labor, springs from difficulties that prevent labor finding employment for itself—from the barriers that fence labor off from land. That there is a surplus of labor in any one occupation arises from the difficulty of finding employment in other occupations, but for which the surplus would be immediately drained off. When there was a great demand for clerks no bookkeeper could suffer for want of employment; and so on down to the fundamental employment's which directly extract wealth from land, the opening of which opportunities for labor to employ itself would soon drain off any surplus in derivative occupations." H.G.

2. Suppose people were freed from their dependence upon land. Would there be an unemployment problem? (133-135) No. "What is inexplicable, if we lose sight of man's absolute and constant dependence upon land, is clear when we recognize it. . . . Variations there might be in the demand for particular commodities or services, which would produce variations in the demand for labor in different occupations, and cause wages in those occupations somewhat to rise above or fall below the general level, but the ability of labor to employ itself, the freedom of indefinite expansion in the primary employments, would allow labor to accommodate itself to these variations, not merely without loss of suffering, but so easily that they would be scarcely noticed. . . .

Where, however, labor could always employ itself, the disadvantage in any conflict would be on the side of employers, while that surplus of the unemployed which enables employers to make such advantageous bargains with labor would not exist. The man who wanted to get others to work for him would not find men crowding for employment. He would find all labor already employed, and in order to tempt them into his employment, he would have to offer higher wages, than the men he wanted, could make for themselves." H.G.

3. Must we all go to work directly on the land in the extractive industries in order to prevent unemployment? (138) No. "Not that every unemployed mechanic, or operative, or clerk, could or would get himself a farm; but that from all the various occupations enough would take themselves to the land to relieve any pressure for employment." H.G.

4. What general conditions contribute to the popular idea that inventions cause unemployment? (139-140)

Unemployment seems to follow Inventions. Inventions increase the results of labor, but it does not result in increased wages. Inventions replace workers, who are free to work other places, but all the displaced workers do not soon get other jobs, and they are not skilled at other jobs for which they may be employed. So, often the wages of displaced workers are less when they are reemployed. Even in the best of times, there is a segment of people who are unemployed, (unemployable). Often, inventions result in certain people becoming unemployed, even if others become employed. Recessions / depressions usually come after a period of great invention. The completion of the transcontinental rail road in 1869, the depression in 1873; the automobile assembly line in 1913, which over the next 17 years, led to assembly line production of everything that could be sold in mass quantities, and the depression of the 1930s; The proliferation of personal computers and modular buildings in the 1980s and the down sizing of the early 1990s. The internet and robotics at the turn of the century, and the Great Recession in 2008.

5. How does a labor-saving invention in one industry increase the productive power of all labor? (140-142) It enables more to be sold at lower prices. Or, the lower prices enable more to be purchased from other industries. Therefore, it increases the production of products in the one industry with the labor-saving invention, and all other industries from which people buy things with the savings from the cheaper products made possible with the labor-saving invention. "When division of labor has taken place, and different parts of production are taken by different individuals, the gain obtained by any labor-saving improvement in one branch of production will, in like manner, be averaged with all. If, for instance, improvements be made in the weaving of cloth and the working of iron, the effect will be that a bushel of grain will exchange for more cloth and the same quantity of all the things he wants with less labor, or a somewhat greater quantity with the same labor. And so with all other producers." H.G.

As a greater result is achieved, for example, in making shoes, more shoes are made in order to get more of all the things that can be exchanged for shoes. As more shoes are offered for sale, the value (price) begins to drop. The supply of shoes will increase until the labor and capital get no greater reward on average than they would get producing other things. At that point all other things will then exchange for a greater number of shoes than before. In other words: As the price of anything you buy goes down in relation to the price of the things you make and sell go up, your productivity has increased.

6. To whom does the increased production due to labor-saving devices ultimately accrue under present conditions? (142-144) The owners of land. "The great gains made by particular capitalists in the utilization of improvements, are not the gain of capital, but generally the gains of monopoly, though sometimes they may be gains of adventure or of management. The rate of interest, which is the measure of the earnings of capital, has not increased with all the enormous labor saving improvements of our century; on the contrary, its tendency has been to diminish. But the requirement of larger amounts of capital, which is generally characteristic of labor-saving improvements, may increase the facility with which those who have large

capitals can establish monopolies that enable them to intercept what would naturally go to labor." H.G.

"While labor saving improvements increase the power of labor, no improvement or invention can release labor from its dependence upon land. Labor-saving improvements only increase the power of producing wealth from land. And land being monopolized as the private property of certain persons, who can thus prevent others from using it, all these gains, which accrue primarily to labor, can be demanded from labor by the owners of land, in higher rents and higher prices. Thus, as we see it, the march of improvement and invention has neither raised interest nor wages, but its general effect has everywhere been to increase the value of land. Where an increase of wages has been won, it has been by combination, or the concurrence of special causes; . . ." H.G.

7. If all social services were furnished free to the public, who would ultimately benefit? (144-145) The owners of land. "Supposing the very rich men of New York were to become suddenly imbued with that public spirit which shows itself in the Astor Library and the Cooper Institute and that it should become among them a passion, leading them even to beggar themselves in the emulation to benefit their fellow-citizens. supposing such a man as Mr. Gould were to make the elevated roads free, were to assume the cost of the Fire Department, and give every house a free telephone connection; and Mr. Vanderbilt, not go be outdone, were to assume the cost of putting down good pavements, and cleaning the streets, and running the horse-cars for nothing; while the Astors were to build libraries in every ward. Supposing the fifty, twenty, ten, and still smaller millionaires, seized by the same passion, were singly or together, at their own cost, to bring in plentiful supplies of water; to furnish heat, light and power free of charge; to improve and maintain the schools; to open theaters and concerts to the public; to establish public gardens and baths and markets; to open stores where everything could be bought at retail for the lowest wholesale price. In short, were to do everything that could be done to make New York a cheap and pleasant place to live in? The result would be that New York being so much more desirable a place to live in, more people would desire to live in it, and the landowners could charge so much the more for the privilege. All these benefactions would increase rent." H.G.

8. Under what conditions does chattel slavery arise? Where land is dear and labor is cheap, chattel slavery ceases to exist. "Chattel slavery is, in fact, merely the rude and primitive mode of property in man. It only grows up where population is sparse; it never, save by virtue of special circumstances, continues where the pressure of population gives land a high value, for in that case the ownership of land gives all the power that comes from the ownership of men, in more convenient form." H.G.

(b.) Under what conditions does it cease (149-151; supplement) Expensive land and low wages. "English ships carried Negro slaves to America, and not to England or Ireland, because there land was valuable and labor was cheap. As soon as the possibility of expansion over new land ceased, chattel slavery would have died out in our Southern States. As it is, Southern planters do not regret the abolition of slavery. They get out of the freed men as tenants as much as they got out of them as slaves. . . .

To the English proprietor, the ownership of slaves would be only a burden and a loss, when he can get laborers for less than it would cost to maintain them as slaves, and when they become ill or infirm, can turn them on the parish. Or what would the New England manufacture gain by the enslavement of his operatives? The competition with each other of so-called freemen, who are denied all right to the soil of what is called **their** country, brings him labor cheaper and more conveniently than would chattel slavery. . . . By making property of the land instead of the person, much care, supervision and expense are saved the proprietors; and though no particular slave is owned by a particular master, yet the one class still appropriates the labor of the other class as before." H.G.

9. Compare chattel slavery with the slavery that results from private property in land. (157-160) It is more efficient and profitable. "Unable to employ themselves, the nominally free laborers are forced by their competition with each other to pay as rent all their earnings above a bare living, or to sell their labor for wages which give but a bare living; and as landowners the ex-slaveholders are enabled as before, to appropriate to themselves the labor or the produce of their former chattels, having in the value which this power of appropriating the proceeds of labor gives to the ownership of land, a capitalized value equivalent, or more than equivalent, to the value of their slaves. They no longer have to drive their slaves to work; want and the fear of want do that more effectively than the lash. They no longer have the trouble of looking out for their employment or hiring out their labor, or the expense of keeping them when they cannot work. That is thrown upon the slaves. The tribute that they still wring from labor seems like voluntary payment. In fact, they take it as their honest share of the rewards of production—since **they** furnish the land! And they find so-called political economists, to say nothing of so-called preachers of Christianity, to tell them it is so." H.G.

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10. How do public debts and indirect taxation strengthen the land monopoly? (161-162) They reduce or eliminate the cost of holding land (owning) land. " . . . by the institution of indirect taxes and public debts the great landholders were enabled to throw off on the people at large the burdens which constituted the condition on which they held their lands, . . ." H.G. (Reference: English Civil Wars.)

11. Should the debts of one generation be binding on another generation? (162-163) No. "If a man were to come to me and say, Here is a promissory note which your great-grandfather gave to my great-grandfather, and which you will oblige me by paying, I would laugh at him, and tell him that if he wanted to collect his note he had better hunt up the man who made it; that I had nothing to do with my great-grandfather's promises. And if he were to insist upon payment and to call my attention to the terms of the bond in which my great-grandfather expressly stipulated with his great-grandfather that I should pay him, I would only laugh the more, and be the more certain that he was a lunatic. To such a demand any one of us would reply in effect, My great-grandfather was evidently a knave or a joker and your great-grandfather was certainly a fool, which quality you surely have inherited, if you expect me to pay you money because My great-grandfather promised that I should do so. He might as well have given your great-grandfather a draft upon Adam or a

check upon the First National Bank of the Moon. Yet upon this assumption that ascendants may bind descendants, that one generation may legislate for another generation, rest the assumed validity of our land titles and public debts. "H.G.

12. Are public debts a device for borrowing from future production? (162-163) No.

"Public debts are not a device for borrowing from the future, for compelling those yet to be, to bear a share in expenses which a present generation may choose to incur. That is, of course, a physical impossibility. They are merely a device for obtaining control of wealth in the present by promising that a certain distribution of wealth in the future shall be made—a device by which the owners of existing wealth are induced to give it up under promise, not merely that other people shall be taxed to pay them, but that other people's children or the children of their assigns. "H.G.

13. How do public debts foster corruption and war? (163-167) "Those who get control of governments are thus enabled to get sums which they could not get by immediate taxation without arousing the indignation and resistance of those who could make the most effective resistance. Thus tyrants are enabled to maintain themselves, and extravagance and corruption are fostered. If any cases can be pointed to in which the power to incur public debts has been in any way a benefit, they are as nothing compared with the cases in which the effects have been purely injurious." H.G.

14. Why are indirect taxes favored by special interests? (165-170) Because extra profits are made when they are shifted to the consumer, and in cases where the tax must be paid in advance, it gives an advantage to those who have large capitals. For example: alcohol, tobacco and gasoline require large sums to buy the inventory, as the tax must be paid in advance of the sale.

The Functions of Government

15. What is the primary purpose of government? (171-172) "The first and main purpose of government is admirably stated in the grand document which Americans so honor and so ignore --- The Declaration of Independence. It is to secure to men those equal and unalienable rights with which the Creator has endowed them." H.G.

16. In what ways can government be simplified? (172-175) Assert the equal right to land. Eliminate wastefulness in the armed forces. Simplify the legal machinery. Simplify electoral methods.

17. What are the results of governmental attempts to legislate virtue? (173-174) They encourage evasion and bring law into contempt, reduce the standards of right and wrong to a legal question, and encourage the rogue who can stay just within the law. (A classic example was Prohibition.)

18. What does Henry George say government should do about business which are in their nature monopolies? (176-189) George says that governments should take over all businesses that are in their nature monopolies, and abolish all other monopolies.

Narrative - Lesson X - Rural and Urban Problems

Applied Economics: Chapters XVIII - XXII in **Social Problems**, by Henry George written 1883

Answers are taken from the text. When that was difficult the text was summarized.

Abolition of Monopoly

The primary cause of political corruption, monopolies and other social maladjustments is treating land as private property. "The main source of the difficulties that menace us is the growing inequality in the distribution of wealth. To this all modern inventions seem to contribute, and the movement is hastened by political corruption, and by special monopolies established by the abuse of legislative power. . . .

Our fundamental mistake is in treating land as private property. On this false basis modern civilization everywhere rests, and hence, as material progress goes on, is everywhere developing such monstrous inequalities in condition as must ultimately destroy it. As without land man cannot exist; . . ." H.G. (194-195)

There are some other monopolies besides the land monopoly. Among them are Banking charters, patents, copyrights, franchises, special licenses. ". . . it may be said that in asserting that, where land is private property the benefit of industrial improvements goes ultimately to landowners, I ignore facts, and attribute to one principle more importance than is its due, since it is clear that a great deal of the increased wealth arising from modern improvements has not gone to the owners of land, but to capitalists, manufacturers, speculators, railroad-owners, and the holders of other monopolies than that of land. It may be pointed out that the richest family in Europe are the Rothschilds, who are more loan jobbers and bankers than landowners; that the richest in America are the Vanderbilts, and not the Astors; that Jay Gould got his money, not by securing, but by bulling and bearing the stock-market, by robbing people with hired lawyers and purchased judges and corrupted legislatures. It may be asked if I attach no importance to the jobbery and robbery of the tariff, under pretense of **protecting American labor**; to the jugglery with the monetary system, from the wildcat State banks and national banking system down to the trade-dollar swindle? . . ." H.G. (196-197)

If all monopolies except the land monopoly were abolished, what would be the effect on the distribution of wealth? The rental value of land would ultimately account for (capture) all the benefits, and wages and interest would tend to remain the same as before." I do not ignore any of these things [other monopolies], but that they in no wise invalidate the self-evident principle that land being private property, the ultimate benefit of all improvements in production must go to the landowners. . . ." H.G. (197-200)

Henry George Does not claim that the recognition of our equal right to the land is the solution to all social problems, but until we assert the equal right to land, no permanent improvement to social problems is possible. "I do not say that in the recognition of the equal and unalienable right of each human being to the natural elements from which life must be supported and wants satisfied, lies the solution of all social problems. I fully recognize the fact that even after we do

this, much will remain to do. We might recognize the equal right to land, and yet tyranny and spoliation be continued. But whatever else we do, so long as we fail to recognize the equal right to the elements of nature, nothing will avail to remedy that unnatural inequality in the distribution of wealth which is fraught with so much evil and danger. . . . What ever be the increase of wealth, the masses will still be ground toward the point of bare subsistence—we must still have our great criminal classes, our paupers and our tramps, men and women driven to degradation and desperation from inability to make an honest living." H.G. (201)

The institution of private property in land was not adopted until the last centuries (BCE) of the Roman Empire. "It is only among an insignificant fraction of the people who have lived on the earth that the idea that the earth itself could be made private property has ever obtained; nor has it ever been obtained, save as the result of a long course of usurpation (illegal seizure), tyranny and fraud. The idea reached development among the Romans, whom it corrupted and destroyed. It took many generations for it to make its way among our ancestors; and it did not, in fact, reach full recognition until two centuries ago, when, in the time of Charles II., the feudal dues were shaken off by a landholders' parliament. Land being plenty and population sparse, we did not realize what it would mean when in two or three cities we should have the population of the thirteen colonies. But it is time that we should begin to think of it now, when we see ourselves confronted, in spite of our free political institutions, with all the problems that menace Europe—when, though our virgin soil is not yet quite fenced in, we have a **working class** a **criminal class** and a **pauper class**; when there are already thousands of so-called **free** citizens of the Republic who cannot by the hardest toil make a living for their families, and when we are, on the other hand, evolving such monstrous fortunes as the world has not seen since great estates were eating out the heart of Rome." H.G. (204)

Absolute private property in land is unsound for the following reasons. It is a gift of nature—needed equally by all people to live. Therefore, it makes slaves out of non-landowners. "In every essential land differs from those things which being the product of human labor are rightfully property. It is the creation of God; they are produced by man. It is fixed in quantity; they may be increased illimitably . . . the private ownership of land keeps land out of use; that the speculation it engenders crowds population where it ought to be more diffused, diffuses it where it ought to be closer together; compels those who wish to improve to pay away a large part of their capital, or mortgage their labor for years before they are permitted to improve; prevents men from going to work for themselves who would gladly do so, crowding them into deadly competition with each other for the [minimal] wages of employers; and enormously restricts the production of wealth while causing the grossest inequality in its distribution" H.G. (204-206)

Some of the benefits of taking the potential rent for public purpose are as follows. All individually produced wealth would be kept by their producers Wages and interest everywhere would be equal to what labor and capital could have produced by utilizing the natural opportunities that were equally available to everyone; socially produced wealth would be shared by the community. Some of it could provide for the common defense, national healthcare, welfare, scientific research, etc. ". . . we could abolish all other taxation, and still have a great

and steadily increasing surplus—a growing common fund, in the benefits of which all might share, and in the management of which there would be such a direct and general interest as to afford the strongest guaranties against misappropriation or waste. under this system no one could afford to hold land he was not using, and land not in use would be thrown open to those who wished to use it, at once relieving the labor market and giving an enormous stimulus to production and improvement, while land in use would be paid for according to its value, irrespective of the improvements the user might make. On these he would not be taxed. All that his labor could add to the common wealth, all that his prudence could save, would be his own, instead of, as now, subjecting him to fine. Thus would the sacred right of property be acknowledged by securing to each the reward of his exertion. . . .

. . . the workman would get the full return of his labor, leaving to the skill, foresight and capital of the employer those additional earnings that are justly their due. . . . The cost of the idleness, pauperism and crime that spring from poverty would be saved to the community; the increased mobility of labor, the increased intelligence of the masses, that would result from this equalized distribution of wealth, the greater incentive to invention . . . " H.G. (208-215)

For the needs of society rent is the natural source of public revenue. "It increases as the development of society goes on, and as larger and larger revenues are therefore required. Taxation upon land values does not lessen the incentive to production and accumulation, as do other methods of taxation; . . . It can be collected with greater certainty and economy than any other tax; it does not beget (cause or produce) the evasion, corruption and dishonesty that flow from other taxes. . . . What can be more in accordance with justice than that the value of land, which is not created by individual effort, but arises from the existence and growth of society, should be taken by society for social needs?" H.G. (214-218)

Rural and Urban Problems

The main source of income for the small farmer is his labor and capital. "The farmer who cultivates his own small farm with his own hands is a landowner, it is true, but he is in greater degree a laborer, and in his ownership of stock, improvements, tools, etc., a capitalist. It is from his labor, aided by this capital, rather than from any advantage represented by the value of his land, that he derives his living." H.G. (220-221)

Indirect taxation affects the working farmer by adding to the price of nearly everything he has to buy without adding to the income he receives from what he has to sell. " . . . the weight of indirect taxation falls upon him without his having the power to shift it off upon any one else; . . . it compels him to contribute to the support of government in far greater proportion to what he possesses than it does those who are much richer, . . . " H.G. (222-224)

The working farmer would gain from a single tax on the rental value of land. It would raise his wages and the return on his capital, while his payment of land rent would likely be less than he previously paid in taxes. "Where he would have to pay more taxes on the value of his land, he would be released from the taxes now levied on his stock and improvements, and from all the indirect taxes that now weigh so heavily upon him. And, as the effect of taxing unimproved land as heavily as though it were improved would be to compel mere holders to sell, and to

destroy mere speculative values, the farmer in sparsely settled districts would have little or no taxes to pay. It would not be until equally good land all about him was in use, and he had all the advantages of a well-settled neighborhood [community], that his taxes [land rent] would be more than nominal." H.G. (222-224)

With a single tax on the rental value of land, the owners of farm land would lose the selling value of the land. The farmer who owns his own farm would lose the selling value of his land, but its usefulness to him would be greater than before. In fact he would get larger returns from his labor upon it. The selling value of other land would be similarly affected, and this loss would make it easier for him to get another farm if he wished to move, and it would be easier for him to settle his children or to get more land if he could advantageously cultivate more. Paraphrased from H.G. (224)

The price of land and economies of scale are conditions that are eliminating the small farmer. "One invention after another has already given the large farmer a crushing advantage over the small farmer, and invention is still going on. And it is not merely in the making of his crops, but in their transportation and marketing, and in the purchase of his supplies, that the large producer in agriculture gains an advantage over the small one. . . . Land commands a higher price in proportion to the income it yields than any thing else, and the man to whom immediate income is of more importance than a secure investment finds it cheaper to rent land than to buy it." H.G. (227-229, supplement)

Private ownership of land "it is rightly esteemed the most secure possession. It cannot be burned, or destroyed by any accident; it cannot be carried off; it tends constantly to increase in value with the growth of population and improvement in the arts (new inventions etc) . . . H.G. (230)

Mortgages facilitate the transition from small to large farms because the payments are so high that the small farmers often fail. Then the land is sold again to those who have the money to sustain short term losses for long term gains, often in larger parcels, often to investors who rent it to tenant farmers. "One man buys upon mortgage, fails in his payments, or gets disgusted, and moves on, and the farm he has improved is sold to another man upon the mortgage. Generally speaking, the ultimate result is, that the mortgagee, not the mortgagor, becomes the full owner. Cultivation under mortgage is, in truth, the transitional form between cultivation by the small owner and cultivation by the large owner or by tenant." H.G. (232)

Land being cheap and labor being dear are the necessary conditions for the small farmer to profitably operate his or her own farm. "The fact is, that the typical American farmer, the cultivator of a small farm of which he is the owner, is the product of conditions under which labor is dear and land is cheap." H.G. (232-233)

The disadvantage of extreme concentration of population is unhealthy. "The vast populations of these great cities are utterly divorced from all the genial influences of nature. . . . This life of great cities is not the natural life of man. He must, under such conditions, deteriorate, physically, mentally, morally. . . ." H.G.

And the extreme sparseness of population is unhealthy. "Man is a gregarious (Lives in groups) animal. He cannot live by bread alone. . . . her infinite diversity becomes monotonous where there is not human companionship; his physical comforts are poor and scant, his nobler powers languish; all that makes him higher than the animal suffers for want of the stimulus that comes from the contact with other men. " H.G. (234-238?)

The basic cause of the unbalanced distribution of population is private property in land, and the non-use and under-use that results. "It springs primarily from our treatment of land as private property, and secondarily from our neglect to assume social functions which material progress forces upon us. Its causes removed, there would ensue a natural distribution of population, which would give every one breathing-space and neighborhood." H.G. (238)

The public collection of rent would affect the distribution of population by eliminating unused and grossly underused land, allowing people to live closer together. Land would be cheaper allowing each family to enjoy more land in cities with larger houses and apartments, and farmers could live much closer together, because there would no longer be farmland sitting idle and uninhabited. "The overcrowded population of the cities would spread, the scattered population of the country would grow denser. When no individual could profit by the advance in the value of land, when no one need fear that his children could be jostled out of their natural rights, no one would want more land than he could profitably use. Instead of scraggy, half-cultivated farms, separated by great tracts lying idle, homesteads would come close to each other." H.G. (238-239)

Supplement - Lesson X

1. The Farm Problem

Henry George noted the trend toward the decrease in the number of small farms and the concentration of farms among large owners. That trend has continued.

This concentration was accelerated by the closing of the frontier around 1890, advances in mechanized farming, and increasing migration from rural to urban areas. Less than 10% of the working population are in all extractive industries in the U.S. About 3% are in farming as opposed to 50% in the 19th century.

Many of the family-sized farms were owned by late-comers who tried to convert marginal land into farms; and many of these have been given up. The younger generation, not seeing a future in struggling on the farm, move on into cities.

The trend is closely related to the availability of good farm land on reasonable terms. After the civil War, veterans were encouraged to homestead. There was an increase in the number of farms into the 20th century, comparable to the increase of population. With the Great Depression and the dust bowl problem, the trend started reversing. After WWII the price of farm land rose sharply, driving out small farmers and would-be farmers and accelerating the trend toward concentration.

The Federal government has stepped in to relieve the situation. The Department of Agriculture has developed a program that is supposed to guarantee a reasonable price for farm produce. The government buys surpluses, and is paid for keeping land out of use. Curbs and controls encroach upon the farmer's traditional independence. The real winners are the large owners who receive the lion's share of subsidies—without solving the farm problem.

The farm problem remains unsolved and will so remain until fundamental reform is adopted: the opening up of better natural opportunities by means of a land value tax.

2. City and Country

Another trend noted by Henry George has continued with variations: people are moving into urban areas from rural areas, not far away. The value of land has followed them and has eventually made it more and more difficult to purchase homes. In several areas there is a trend to move back to the city—but of course the value of land follows the homeowners back—in fact, anticipates them with speculative land prices and high rents.

In general, urban and suburban areas are increasing in population, and rural areas are declining.

Another trend, continuing since America was discovered, is a move westward. One variation is a move southward as well. The 1980 census showed that, for the first time, the geographical center of population had moved west of the Mississippi River. The largest gains in population were in the “Sun Belt.”

The quest for a better life by moving continues. But the same problems pursue those who are moving, whether westward or just to the suburbs: rising land values, tax problems, urban slums, etc—progress and poverty.

These problems will persist until they are confronted and dealt with in a fundamental way, as Henry George urged.

Student _____

Questions - Lesson X - Rural and Urban Problems

Applied Economics: Chapters XVIII - XXII in **Social Problems**, by Henry George written 1883

Answers are taken from the text. When that was difficult the text was summarized.

Abolition of Monopoly

1. What is the primary cause of political corruption, monopolies and other social maladjustments? (194-195)
2. Mention some other monopolies besides the land monopoly. (196-197)
3. If all monopolies except the land monopoly were abolished, what would be the effect on the distribution of wealth? (197-200)
4. Does Henry George claim that recognition of our equal right to the land is the solution to all social problems? (201)
5. When did the institution of private property in land become fully adopted? (204)
6. Give reasons why absolute private property in land is unsound. (204-206)
7. What would be some of the benefits of taking the potential rent for public purpose? (208-215)
8. Why is rent the natural source of revenue for the needs of society? (214-218)

Rural and Urban Problems

9. What is the main source of income for the small farmer? (220-221)

10. In what ways does indirect taxation affect the working farmer? (222-224)
11. How would the working farmer gain from a single tax on the rental value of land? (222-224)
12. What would owners of farm land lose by a single tax on the rental value of land? (224)
13. What conditions are eliminating the small farmer? (227-229, supplement)
14. Why is the private ownership of land so highly esteemed? (230)
15. How do mortgages facilitate the transition from small to large farms? (232)
16. What conditions are necessary for the small farmer to profitably operate his or her own farm? (232-233)
17. What are the disadvantages of a) extreme concentration of population?

b) extreme sparseness of population (234-238?)
18. What is the basic cause of the unbalanced distribution of population? (238)
19. How would the public collection of rent affect the distribution of population? (238-239)

Answers - Lesson X - Rural and Urban Problems

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Our fundamental mistake is in treating land as private property. On this false basis modern civilization everywhere rests, and hence, as material progress goes on, is everywhere developing such monstrous inequalities in condition as must ultimately destroy it. As without land man cannot exist; . . ." H.G.

2. Mention some other monopolies besides the land monopoly. (196-197) Banking charters, patents, copyrights, franchises, special licenses. ". . . it may be said that in asserting that where land is private property the benefit of industrial improvements goes ultimately to landowners, I ignore facts, and attribute to one principle more importance than is its due, since it is clear that a great deal of the increased wealth arising from modern improvements has not gone to the owners of land, but to capitalists, manufacturers, speculators, railroad-owners, and the holders of other monopolies than that of land. It may be pointed out that the richest family in Europe are the Rothschilds, who are more loan jobbers and bankers than landowners; that the richest in America are the Vanderbilts, and not the Astors; that Jay Gould got his money, not by securing, but by bulling and bearing the stock-market, by robbing people with hired lawyers and purchased judges and corrupted legislatures. It may be asked if I attach no importance to the jobbery and robbery of the tariff, under pretense of protecting American labor; to the jugglery with the monetary system, from the wildcat State banks and national banking system down to the trade-dollar swindle? . . ." H.G.

3. If all monopolies except the land monopoly were abolished, what would be the effect on the distribution of wealth? (197-200) The rental value of land would ultimately account for (capture) all the benefits, and wages and interest would tend to remain the same as before." I do not ignore any of these things, but that they in no wise invalidate the self-evident principle that land being private property, the ultimate benefit of all improvements in production must go to the landowners. . . ." H.G.

4. Does Henry George claim that recognition of our equal right to the land is the solution to all social problems? (201) No. "I do not say that in the recognition of the equal and unalienable right of each human being to the natural elements from which life must be supported and wants satisfied, lies the solution of all social problems. I fully recognize the fact

that even after we do this, much will remain to do. We might recognize the equal right to land, and yet tyranny and spoliation be continued. But whatever else we do, so long as we fail to recognize the equal right to the elements of nature, nothing will avail to remedy that unnatural inequality in the distribution of wealth which is fraught with so much evil and danger. . . . What ever be the increase of wealth, the masses will still be ground toward the point of bare subsistence—we must still have our great criminal classes, our paupers and our tramps, men and women driven to degradation and desperation from inability to make an honest living." H.G.

5. When did the institution of private property in land become adopted? (204) During the last centuries BCE in the Roman Empire. "It is only among an insignificant fraction of the people who have lived on the earth that the idea that the earth itself could be made private property has ever obtained; nor has it ever obtained save as the result of a long course of usurpation (illegal seizure), tyranny and fraud. The idea reached development among the Romans, whom it corrupted and destroyed. It took many generations for it to make its way among our ancestors; and it did not, in fact, reach full recognition until two centuries ago, when, in the time of Charles II., the feudal dues were shaken off by a landholders' parliament. Land being plenty and population sparse, we did not realize what it would mean when in two or three cities we should have the population of the thirteen colonies. But it is time that we should begin to think of it now, when we see ourselves confronted, in spite of our free political institutions, with all the problems that menace Europe—when, though our virgin soil is not yet quite fenced in, we have a **working class** a **criminal class** and a **pauper class**; when there are already thousands of so-called **free** citizens of the Republic who cannot by the hardest toil make a living for their families, and when we are, on the other hand, evolving such monstrous fortunes as the world has not seen since great estates were eating out the heart of Rome." H.G.

6. Give reasons why absolute private property in land is unsound. (204-206) Because it is a gift of nature that is needed equally by all people to live. Therefore, it makes slaves out of non-landowners. "In every essential land differs from those things which being the product of human labor are rightfully property. It is the creation of God; they are produced by man. It is fixed in quantity; they may be increased illimitably . . . the private ownership of land keeps land out of use; that the speculation it engenders crowds population where it ought to be more diffused, diffuses it where it ought to be closer together; compels those who wish to improve to pay away a large part of their capital, or mortgage their labor for years before they are permitted to improve; prevents men from going to work for themselves who would gladly do so, crowding them into deadly competition with each other for the [minimal] wages of employers; and enormously restricts the production of wealth while causing the grossest inequality in its distribution" H.G.

7. What would be some of the benefits of taking the potential rent for public purpose? (208-215) All individually produced wealth would be kept by their producers; wages and interest would increase until they were equal to what each worker could have produced by utilizing the natural opportunities that were equally available to everyone; socially produced

wealth would be shared by the community. Some of it could provide for the common defense, national healthcare, welfare, scientific research, etc. ". . . we could abolish all other taxation, and still have a great and steadily increasing surplus—a growing common fund, in the benefits of which all might share, and in the management of which there would be such a direct and general interest as to afford the strongest guaranties against misappropriation or waste. under this system no one could afford to hold land he was not using, and land not in use would be thrown open to those who wished to use it, at once relieving the labor market and giving an enormous stimulus to production and improvement, while land in use would be paid for according to its value, irrespective of the improvements the user might make. On these he would not be taxed. All that his labor could add to the common wealth, all that his prudence could save, would be his own, instead of, as now, subjecting him to fine. Thus would the sacred right of property be acknowledged by securing to each the reward of his exertion. . . .

. . . the workman would get the full return of his labor, leaving to the skill, foresight and capital of the employer those additional earnings that are justly their due. . . . The cost of the idleness, pauperism and crime that spring from poverty would be saved to the community; the increased mobility of labor, the increased intelligence of the masses, that would result from this equalized distribution of wealth, the greater incentive to invention . . ." H.G.

8. Why is rent the natural source of revenue for the needs of society? (214-218) "It increases as the development of society goes on, and as larger and larger revenues are therefore required. Taxation upon land values does not lessen the incentive to production and accumulation, as do other methods of taxation; . . . It can be collected with greater certainty and economy than any other tax; it does not beget (cause or produce) the evasion, corruption and dishonesty that flow from other taxes. . . . What can be more in accordance with justice than that the value of land, which is not created by individual effort, but arises from the existence and growth of society, should be taken by society for social needs?" H.G.

Rural and Urban Problems

9. What is the main source of income for the small farmer? (220-221) His labor and capital. "The farmer who cultivates his own small farm with his own hands is a landowner, it is true, but he is in greater degree a laborer, and in his ownership of stock, improvements, tools, etc., a capitalist. It is from his labor, aided by this capital, rather than from any advantage represented by the value of his land, that he derives his living." H.G.

10. In what ways does indirect taxation affect the working farmer? (222-224) It adds to the price of nearly everything he has to buy, without adding to the income from what he has to sell. ". . . the weight of indirect taxation falls upon him without his having the power to shift it off upon any one else; . . . it compels him to contribute to the support of government in far greater proportion to what he possesses than it does those who are much richer, . . ." H.G.

11. How would the working farmer gain from a single tax on the rental value of land? (222-224) It would raise his wages and the return on his capital, while his payment of land rent would likely be less than he previously paid in taxes. "Where he would have to pay more taxes on the value of his land, he would be released from the taxes now levied on his stock and

improvements, and from all the indirect taxes that now weigh so heavily upon him. And as the effect of taxing unimproved land as heavily as though it were improved would be to compel mere holders to sell, and to destroy mere speculative values, the farmer in sparsely settled districts would have little or no taxes to pay. It would not be until equally good land all about him was in use, and he had all the advantages of a well-settled neighborhood, that his taxes (land rent) would be more than nominal." H.G.

12. What would owners of farm land lose by a single tax on the rental value of land? (224) "What the farmer who owns his own farm would lose would be the selling value of his land, but its usefulness to him would be . . . greater than before, in fact as he would get larger returns from his labor upon it; the selling value of other land would be similarly affected, this loss would make it easier for him to get another farm if he wished to move, and it would be easier for him to settle his children or to get more land if he could advantageously cultivate more." H.G.

13. What conditions are eliminating the small farmer? (227-229, supplement) The price of land and economies of scale. "One invention after another has already given the large farmer a crushing advantage over the small farmer, and invention is still going on. And it is not merely in the making of his crops, but in their transportation and marketing, and in the purchase of his supplies, that the large producer in agriculture gains an advantage over the small one. . . . [And] land commands a higher price in proportion to the income it yields than any thing else, and the man to whom immediate income is of more importance than a secure investment finds it cheaper to rent land than to buy it." H.G.

14. Why is the private ownership of land so highly esteemed? (230) " it is rightly esteemed the most secure possession. It cannot be burned, or destroyed by any accident; it cannot be carried off; it tends constantly to increase in value with the growth of population and improvement in the arts (new inventions etc). . . . H.G.

15. How do mortgages facilitate the transition from small to large farms? (232) The mortgage payments are so high that the small farmers often fail in their payments, and the land is sold again to those who have the money to sustain short term losses for long term gains, often in larger parcels, often to investors who rent it to tenant farmers. "One man buys upon mortgage, fails in his payments, or gets disgusted, and moves on. The farm he has improved is sold to another man upon the mortgage. Generally speaking, the ultimate result is, that the mortgagee, not the mortgagor, becomes the full owner. Cultivation under mortgage is, in truth, the transitional form between cultivation by the small owner and cultivation by the large owner or by tenant." H.G.

16. What conditions are necessary for the small farmer to profitably operate his or her own farm? (232-233) Land is cheap and labor is dear. "The fact is, that the typical American farmer, the cultivator of a small farm of which he is the owner, is the product of conditions under which labor is dear and land is cheap." H.G.

17. What are the disadvantages of a) extreme concentration of population? Unhealthy. "The vast populations of these great cities are utterly divorced from all the genial influences of nature. . . . This life of great cities is not the natural life of man. He must, under such conditions, deteriorate, physically, mentally, morally. . . ." H.G.

b) extreme sparseness of population (234-238?) Unhealthy. "Man is a gregarious (Lives in groups) animal. He cannot live by bread alone. . . . her infinite diversity becomes monotonous where there is not human companionship; his physical comforts are poor and scant, his nobler powers languish; all that makes him higher than the animal suffers for want of the stimulus that comes from the contact with other men. " H.G.

18. What is the basic cause of the unbalanced distribution of population? (238) Private property in land, and the non-use and under-use that results. "It springs primarily from our treatment of land as private property, and secondarily from our neglect to assume social functions which material progress forces upon us. Its causes removed, there would ensue a natural distribution of population, which would give every one breathing-space and neighborhood." H.G.

19. How would the public collection of rent affect the distribution of population? (238-239) Less land would be unused allowing people to live closer together. Land would be cheaper allowing people to be far less closely concentrated. Apartments could be much larger in cities, and farmers could live much closer together. "The overcrowded population of the cities would spread, the scattered population of the country would grow denser. When no individual could profit by advance in the value of land, when no one need fear that his children could be jostled out of their natural rights, no one would want more land than he could profitably use. Instead of scraggy , half-cultivated farms, separated by great tracts lying idle, homesteads would come close to each other." H.G.