



Henry George

Political Economy and Social Philosophy

Part I – based on Progress and Poverty by Henry George

Compiled by Mike Curtis

Henry George Academy - Part I - Fundamental Principles of Political Economy.

Fundamental Principles of Political Economy explores, in ten lessons, the natural laws (human tendencies) that direct the production and distribution of wealth. In the process it reconciles what George considered the paradox—why, in spite of all the new inventions, innovations and new discoveries that increase the results of labor, the general rate of wages does not go up; why so many people who are willing and able to work, are unable to exchange their labor for the products of other people's labor; why, although the factors of production remain potentially the same, the economy stalls in recession or depression with significant segments of the work force unable to participate for many months or even years.

Lesson 1. Labor is applied to the natural resources. They are separated, combined, or changed in form or in place. First, capital-wealth (buildings, machines, things that grow) is produced which is then used to give labor a greater efficiency in producing consumer products. All activities that aid in getting raw materials to the consumer in the desired form are part of production.

In every direction we find there are examples of an increase in productivity—computers, robotics in auto-assembly, factory built homes, and skyscrapers that are built a truckload at a time in a matter of months. There are power tools in virtually all occupations, from nail guns to cash registers that inventory as they scan each product in a fraction of the time it once took. Yet, the general level of wages, in terms of a standard of living, tends to remain constant. The Minimum Wage is periodically increased to compensate for the inflated (Money losing value) cost of living.

Even in the best of times, when the economy is considered healthy and far from recession, millions of Americans are judged to be unemployable—incapable of producing enough value every hour to be paid the legal Minimum Wage. How do we explain it? Is it simply a matter of productivity? Could we solve the problem by increasing efficiency until each worker became employable? Or, are there just so many

jobs within the economy at any given time? If that is the case, no matter how much the productivity of any individual worker increases, if the productivity of all other workers increase by the same amount, he or she will still be unemployable. This is like the guy who is running last. He doubles his speed, and so do his competitors. He still comes in last.

If the lack of an individual's productivity were the cause of their unemployment, the advance in technology, which increases everyone's productivity, would counteract it, and the number of unemployed people would tend to decline. Take the classic example of the burger stores. The cashier pushes pictures of the different products—double cheeseburger, small fries, medium coke—the register adds them up. It even tells the cashier how much change to give the customer. There's nothing to write, nothing to add. The high school drop out can process an order faster than any college graduate with a cash drawer and a pencil and paper. Because of technology, less education and skill affect a greater result, yet millions of people continue to be unemployable.

In addition to the cause of static wages, unemployment, and the business cycle, this course will show what political institutions would raise wages in harmony with each new technology, create full employment at all times, and fund governments with socially created values. It will explore the concepts of equal and shared opportunities, freedom, justice, and the law of human progress.

Lesson 2 - Definitions; Production and Wages

Terms are labels that refer to things with common characteristics—that function in similar ways. The terms used in political economy go back more than 200 years. However, as a discipline, political economy is still evolving. Each writer or institution may use the same terms to include or exclude things with different characteristics in order to project their own understanding of the science. There is yet no universal convention. Even the definition of political economy differs with different writers and institutions. And the meaning of the terms will often differ from those used in common speech.

Each term is used as a label that refers to things with specific characteristics, processes, or outcomes, which would otherwise require many words to describe. The terms and definitions they represent are subjective (arbitrary); the things that are included within those definitions are objective (logical).

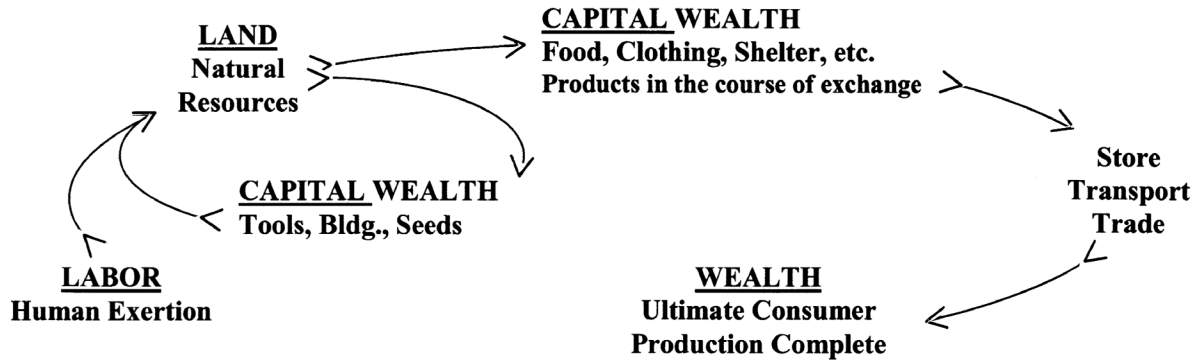
Political Economy

Wealth is the primary vehicle by which people live. Therefore, Political Economy is the science that treats of the nature of wealth and the natural laws that govern its production and distribution. Services that are exchanged for wealth or other services are governed by the same laws. Political economy is simply the study of how civilized people make a living.

Wealth

Produced and consumed to sustain life, and satisfy human desires, wealth in this course refers to all things that have the following four characteristics in common: 1. they are made out of natural materials; 2. are made by human exertion; 3. satisfy human desires; 4. have a value in exchange. Wealth exchanges equally with other products that would require similar efforts to acquire. Because money is a medium of exchange, in political economy transactions are not fully complete until the money is spent and something that will satisfy desires is received in exchange. Slaves are not wealth because they are human-beings. Slaveowners think of slaves as wealth, but in political economy they are labor (people who produce wealth, and who's labor is exploited).

Production is the process of getting a natural resource to the consumer in the desired form. It includes combining, separating, and changing natural substances in form and in place.



Production is complete when the product is in the hands of the ultimate consumer.

The Three Factors of Production

LAND, the passive factor, includes everything that exists in nature, except people and their products. It includes oil in the ground, air, oceans, and the electromagnetic spectrum. **LABOR**, the second factor, includes all human exertion (mental & physical) used in the production of wealth. It includes the work of managers, entrepreneurs, and slaves. **CAPITAL**, the third factor, refers to all products used to produce more products for exchange, including those in the course of exchange (all wealth that is expected to afford an income). Labor and capital are the active factors. Land and Labor are the primary factors. Capital is the compound factor.

<p>LAND</p> <p>The entire material universe, excluding people and products</p> <hr/> <p><i>Examples</i></p> <p>Minerals in the ground --- oil, iron, gold, water, dirt, stone --- lot under a house, fish in the ocean trees in a natural forest, electromagnetic spectrum</p>	<p>LABOR</p> <p>Human exertion resulting in exchangeable products</p> <hr/> <p><i>Examples of People who perform labor</i></p> <p>Mechanic, carpenter, factory-worker, truck driver, salesman, plantation slave, General Motors executive.</p>	<p>CAPITAL wealth</p> <p><i>Products used to make more products for exchange.</i></p> <p>They must be:</p> <ol style="list-style-type: none"> 1. Material; 2. Produced; 3. Satisfy human desire; 4. Have value in exchange. <hr/> <p><i>Examples</i></p> <p>Tools, machines, buildings, crops on a farm, oil in a ship, taxi cab, Products for sale.</p>
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The next chart starts with exchangeable products that are held by the ultimate consumer. They are termed wealth. Since they are not used to produce more wealth for exchange (expected to yield an income), they are not capital. All capital is wealth, but all wealth is not capital. The next category is exertion applied directly to human desires. No product results, so it is termed service. In the last box are things of value, which only represent, but are not wealth or land. Paper money is only a medium of exchange, and human attributes are qualities of labor.

<p>Non-capital WEALTH Exchangeable products Held by ultimate consumer <i>They must be:</i> 1. Material; 2. Produced; 3. Satisfy human desire; 4. Have value in exchange. <i>Examples</i> Owner occupied house (Bldg.), food in your home, personal car, clothes and TV.</p>	<p>SERVICE Human exertion applied directly to the satisfaction of human desires ----- People who perform service Doctor, Dentist, teacher, singer, divorce-lawyer</p>	<p><u>May</u> represent exchangeable products, but are not products <i>Stock certificates, car-title Real estate deed,</i> Medium of exchange <i>Money</i> Human attribute <i>Skill, Knowledge, Intelligence</i></p>
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LAND is not included in our definition of wealth because it was not produced.

REPRESENTATIONS OF WEALTH such as bank notes, stock certificates and bonds are not termed wealth because they are not products. Even when they represent wealth, they are only claims on it.

KNOWLEDGE, SKILL AND EXPERIENCE are not included in our definition of wealth because they are not products. They are qualities of labor.

PRODUCTION: is the process of getting a natural resource to the consumer in the desired form. It includes combining, separating, and changing natural substances in form and in place.

Land, Labor and Capital are the factors of production. They are mutually exclusive. (Nothing can be more than one factor of production)

Land and labor are the primary factors; capital is the compound factor made out of land and labor. Labor and capital are the active factors. Land is the passive factor.

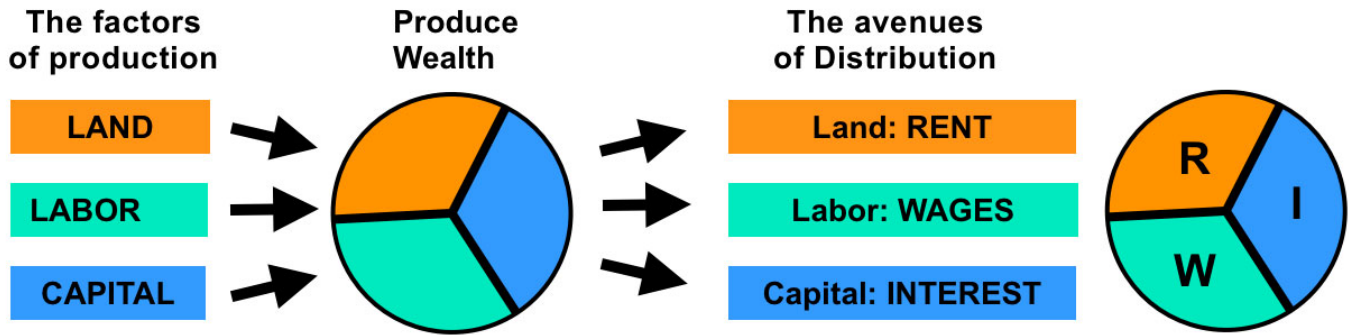
A truck used on a commercial farm is capital; a truck used to go camping for fun is not. A Television on the shelf in a store is capital; a TV in your home is not.

Transporting and merchandizing (selling) are part of getting a natural resource to the consumer in the desired form. Therefore, they are part of production.

Production is complete when the product is in the hands of the ultimate consumer.

The distribution of wealth is the division of a product among the owners of each factor that produced it. There are three avenues of distribution: **Rent** is taken by the owners of land. **Wages** are taken by labor. **Interest** is taken by the owners of capital. In common speech we talk of renting a house or apartment, but in political economy rent is paid for the land, and interest is paid for the building. We rent a truck or a tool, but in political economy trucks and tools are capital; their owners are paid interest. Rent is paid by the user to the owner of land. However, in political economy, that portion of a farmer's crop, which results from his ownership of land, is also rent. That portion of the income of a storeowner, which results from the location of his store, is rent.

Wages apply to the self-employed as well. All that she receives for her mental and physical exertion are her **wages**. Economic **Interest** includes the gains from **capital**—owned or loaned. It does not include interest for the loan of money, since money is not **capital**, although one is influenced by the other.



Production and Wages

The problem of poverty, as explored in lesson I, is that wages of the least productive, least demanded, workers—no matter how much they produce—tend, in the free market, to a bare subsistence. There are never as many jobs as there are people seeking work. Therefore, some of the very least skilled and educated people are always unemployed no matter how much they can produce.

Poverty still accompanies progress. Inventions, innovations and new discoveries continue to increase the efficiency with which food, clothing and shelter are produced—yet many Americans live in poverty. They live in city slums, and impoverished rural areas.

Governments provide food, housing, and medical care totaling hundreds of billions of dollars in an attempt to alleviate poverty, yet it persists.

Where do wages come from?

When a worker is self-employed, as in fishing or gathering fruit from the public land, which may still be possible in a few places in the United States, her wages are the result of her own labor.

When a worker is paid with a percentage of what he produces, like a fisherman who takes a percentage of the catch, or a woodsman who keeps some of the firewood he cuts and splits, his wages are the result of his own labor.

When workers are paid with money, the result is no different from paying wages in kind. The money simply represents the wealth he or she produced. Production is always the reason for paying wages.

Labor precedes the payment of wages. First labor produces wealth, then wealth or money that represents it, is paid in wages.

When a worker is engaged in a long-range enterprise like building a ship, even if the product cannot be exchanged each week as the worker is paid, the employer’s capital is never lessened by the payment of wages. The value of his or her labor is added to the value of the capital (in this case a ship) before wages are paid. The product of labor precedes and stands in place of the wages paid. Wages come from the results of labor (product of labor). When erecting a high-rise building, as each floor is added the value of the building is increased. Each week labor adds value to the building. Then, after labor has added value, that value is exchanged for wages.

It is sometimes assumed that the maintenance of labor is drawn from capital. That is to say: food clothing and shelter produced in the past are necessary to sustain each worker as they engage in current production. Therefore, the profit, or return to that wealth (capital) will have a converse effect on the rate of wages.

However, in reality, we live on production currently in progress. Some workers are producing food while others are building ships. This is obvious when we think how long we could go on consuming if everyone stopped producing altogether. With money and credits, food is traded daily as it is produced, in exchange for the values added to the partially completed ships and buildings. That is to say: when construction begins, there is no stock of food large enough to support the workers until each ship or building is completed.

A lack of capital is often observed in impoverished countries. However, there often coexists a small group of people who not only control most production, but chose not to invest in modern capital. In some cases, governments may tax or regulate production so much that it grossly reduces the incentive to invest. In other cases governments may not be able to protect modern capital investments, so the incentive is lost. The lack of capital in impoverished countries is one of the symptoms, but does not explain the cause of poverty.

In advanced countries poverty cannot be explained by a lack of capital; for in times of recession or depression, unemployment and poverty coexist with an excess of capital. Buildings and machinery are often sitting idle and deteriorating while poverty and slums are increasing.

Student _____

LESSON 1 & 2 — DEFINITIONS: PRODUCTION & WAGES - Questions

The Meaning of the Terms

1. What is political economy as defined in this course?
2. What four characteristics do all items of wealth have in common?
3. Are the following wealth? Explain why or why not.
 - a) land:
 - b) bank notes, stock certificates, bonds:
 - c) knowledge, skill, experience:
 - d) slaves:
4. What is production?
5. Name and define the three factors in the production of wealth.
6. Give examples of:
 - a) wealth that is capital:
 - b) wealth that is not capital:
7. Are transportation and merchandising (selling) part of production?
8. When is production completed?
9. What is the distribution of wealth in political economy?
10. Name and define the three avenues of distribution.

Having defined our basic terms, we proceed with a study of their relationships.

Production and Wages

11. What is the problem of poverty as defined by Henry George?

12. Does poverty still accompany progress?

(Note: In Book I of Progress & Poverty, Henry George examines the theory current in his day to explain poverty, i.e., low wages. It was known as the “wages-fund theory” and said that there was a fund of capital out of which wages were paid. The more workers there were, according to this theory, the less each got in wages, since the fund was fixed. Though this theory is no longer formally held, the assumption upon which it is based is still widespread, namely, that wages are drawn from capital. We now examine this assumption.)

13. When a worker is self-employed, are his wages drawn from capital?

14. When workers are paid by a percentage of what they produce, where do wages come from?

15. When laborers are paid with money, is the result any different from paying wages in kind?

16. Does labor precede the payment of wages?

17. When a worker is engaged in a long-range enterprise, the product of which cannot be exchanged immediately (e.g., a bridge): a) Is the amount of capital lessened when wages are paid? _____ b) What stands in the place of the wages he or she receives? _____ c) Where do the wages come from? _____

18. Would there be shortages almost immediately if everyone stopped working altogether?

19. Do we live on production from the past, or production that is currently in progress?

20. Is the lack of capital a symptom, or does it fully explain the persistence of poverty in undeveloped countries?

21. Does lack of capital explain the persistence of poverty in advanced countries?

LESSON 1 & 2 — DEFINITIONS: PRODUCTION & WAGES - **Answers**

1. What is political economy as defined in this course? The science which deals with the nature of wealth and the natural laws governing its production and distribution.
2. What four characteristics do all items of wealth have in common?
 1. Material; 2. produced by labor; 3. satisfies desires; 4. has value in exchange.
3. Are the following wealth? Explain why or why not.
 - a) land: a. No; it is not a product of labor.
 - b) bank notes, stock certificates, bonds: No; they are but evidences of wealth or claims on wealth. Their increase or decrease does not affect the sum total of wealth. Credit money is a means to exchange, not wealth itself.
 - c) knowledge, skill, experience: No; they are not material things. They are human qualities, attributes of labor.
 - d) slaves: No; they are human beings whose labor is exploited.
4. What is production? All processes involved in bringing a natural resource to the consumer in the desired form—separating, combining, changing in form or in place.
5. Name and define the three factors in the production of wealth.
 - a) **Land**: The entire material universe exclusive of people and their products.
 - b) **Labor**: All human exertion in the production of wealth.
 - c) **Capital**: Wealth used to produce more wealth; or, wealth in the course of exchange.
6. Give examples of: a) wealth that is capital: Books in a bookstore, car used in business, carpenter's tools.
b) wealth that is not capital: Books in the home, car used for pleasure, hobbyist's tool kit.
7. Are transportation and merchandising (selling) part of production? Yes, production includes not merely the making of things but also bringing them to the ultimate consumer.
8. When is production completed? When the product reaches the ultimate consumer.
9. What is the distribution of wealth in political economy? The division of wealth among the factors which produce it.
10. Name and define the three avenues of distribution. a) **Rent**: That part of wealth which is the return to land. b) **Wages**: That part of wealth which is the return to labor. c) **Interest**: That part of wealth which is the return to capital.
11. What is the problem of poverty as defined by Henry George? Some people are unable to exchange their labor for the products of other people's labor—unemployment.

And, in spite of the increase in productive power, wages of the least skilled and educated tend to a minimum which will give but a bare living, no matter how much they produce.

12. Does poverty still accompany progress? Yes. While technology and wealth advance, slums remain and poverty persists. There is always a portion of the people who are unemployed, and the less skilled and educated earn minimal wages.

13. When a worker is self-employed, are his wages drawn from capital? No, his wages come from the product of his labor (as in fishing and hunting).

14. When workers are paid by a percentage of what they produce, where do wages come from? From their own production (as in share-cropping or selling on commission).

15. When laborers are paid with money, is the result any different from paying wages in kind? No, it is essentially the same thing; the money represents the wealth produced. "Production is always the mother of wages."

16. Does labor precede the payment of wages? Yes. Labor must first produce the wealth from which its wages come.

17. When a worker is engaged in a long-range enterprise, the product of which cannot be exchanged immediately (e.g., a bridge): a) Is the amount of capital lessened when wages are paid? No b) What stands in the place of the wages he or she receives? The value his or her labor has added to the enterprise. c) Where do the wages come from? The product of labor.

18. Would there be shortages almost immediately if everyone stopped working altogether? Yes.

19. Do we live, primarily, on production that was stored up in the past, or production that is currently in progress? Production that is continuously going on: current production. If production stopped, supplies would not last long.

20. Is the lack of capital a symptom, or does it fully explain the persistence of poverty in undeveloped countries? It is a symptom. The lack of capital is usually the result of conditions which are also causing poverty—unjust laws, political corruption, ignorance, monopoly, etc. Impoverished countries which have the deepest poverty also have a small minority of very rich and powerful people.

21. Does lack of capital explain the persistence of poverty in advanced countries? No, there is often the deepest poverty where capital is most abundant. Our largest and most advanced cities have the worst slums. We must look further for the real cause of poverty.

Lesson 3 --- Population; The Law of Rent.

Based on Progress & Poverty, Book II Chapter 4; also book III Chapters 1 and 2.

Population

In an endeavor to understand the cause of poverty, the longstanding question of population is now considered. Is poverty caused by overpopulation?

The Malthusian theory—circa 1800—was advanced to explain the persistence of poverty. It held that the tendency of population was to increase faster than subsistence. It hypothesized that population increased in a mathematical ratio like 2, 4, 8, 16, and so on, while the tendency of food was to increase in an arithmetic progression like 1, 2, 3, 4, and so on. Therefore, population would always tend to increase faster than food, and hunger would always be present. This has not been consistently true.

In supposedly overpopulated countries, there are large unused areas of potentially productive land, very inefficient production, and large portions of what is produced does not go to those who produce it.

Not only have many countries increased their agricultural yields faster than their populations, but technology continues to make solar energy more adaptable. The solar energy that reaches the horizontal surfaces of the Earth is believed to be greater than the energy content of all the reserves of coal, oil, natural gas, and uranium in the earth's crust. Reductions in pollution and carbon dioxide emissions are also becoming technologically possible without losing production.

Arranged by population density per Sq. Mile of arable land

	% living on		People per
Country	less than \$2	G.D. P. per	Sq. Mile of
	a day	Person	Arable Land
South Korea	0%	\$33,200	7,761
Japan	0%	\$36,900	7,570
Egypt	25%	\$6,700	6,907
Bangladesh	76%	\$2,100	5,038
Philippines	41%	4,500	4,015
Vietnam	40%	3,600	3,300
Indonesia	43%	\$3,420	2,941
United Kingdom	0%	\$37,500	2,788
China	27%	\$9300	2,441
India	68%	\$3,900	1,949
Italy	0%	\$29,800	1,936
Germany	0%	\$39,400	1,843
Ethiopia	66%	\$1,200	1,688
Mexico	52%	\$9,640	1,128

France	0%	\$41,850	860
U.S.A.	0%	\$52,340	464
Russia	11%	\$12,700	303

Source: World Fact Book-World Bank 2013

There is no consistent correlation between poverty and density of population. High standards of living prevail in some countries that have either low or high densities of population; and the same is true of low standards of living.

The greatest per capita (person) production of wealth is found in densely populated countries. The increase of population increases the power to produce wealth. A greater number of people can produce a larger amount of wealth per capita (person) than a smaller number. With the concentration of population comes the division and specialization of labor (as in assembly lines with economies of scale) and the exchange of wealth that enables each worker to produce much more wealth or services.

The world's population in (1999) was about 5.9 billion people. At that time, the FAO (United Nations Food & Agriculture Organization) estimated that with modern farming methods, the earth could grow enough food to feed 33 billion people, provided all tillable land was used. However, the UN estimates a plateau population of about 12 billion by the mid-to-late 21st century.

Each person in the world could have an acre of land in an area smaller than North America, at an average density of 640 people per square mile—less dense than France is today.

Africa, the World's poorest Continent, has 20.2% of the world's land area, 12.6% of its population, and 12.8% of its arable land. It has the greatest rate of population increase and the greatest rates of increase in hunger, illiteracy, and desertification. At the same time, some African nations, ravaged by disease and war, have actually lost population in recent years.

Arable land—defined as land capable of being cultivated in any given growing season—is a better measure of the food-production capacity than gross land area. Enough arable land exists in India to give each person in the country half an acre. In famine-ravaged Ethiopia, each person can have almost three-quarters of an acre of arable land.

The Laws of Distribution

Inventions, innovations, and new technologies are rapidly increasing the potential, and in many countries, actual production. Were the full productive potential applied to the land, there would be more than enough wealth to end poverty—yet it persists. Therefore, it is not the laws of production, but the laws of distribution that must be explored in finding the cause of poverty. In political economy the distribution of wealth refers to the division of wealth among the factors that produce it. The natural laws of distribution are determined (arrived at) from predictable tendencies in human behavior.

The laws of distribution determine how much of each product will be taken by workers as wages, capitalists as interest, landowners as rent. The three avenues of distribution account for the entire product. Taxation, and portions of wealth that go to monopolies or theft may be considered as simply reducing the amount of wealth produced, or as though an equal amount of wealth was not produced. After the natural laws of distribution are observed and understood, the effects of taxes, monopolies, and other diversions of wealth by legislation can be evaluated.

Capital is not a necessary factor in the production of wealth. If it were, there would be a dilemma; labor would require the results of labor before it could be expended (Workers would require the results of work

before they could work). However, labor without the use of capital is very inefficient. Capital is produced, and then used to multiply the efficiency of labor.

Wealth is not always divided into three parts. In some instances the land that is used in production may not be owned, like fishing at the National Seashore. In other cases the land may only yield enough for wages and interest. In either case there would be no rent. It is certainly a rare event when people do not use any capital at all. However, people could gather seashells on the public beach, and they might carry the first few in their hands until they were sold. There would be no capital involved; therefore, there would be no interest taken. This would be true even if some of the wages were exchanged for a basket (capital) to carry future shells.

Profit or profits are used to reflect the rewards of investments. They could result from an investment in capital, land, or another monopoly. On occasion, the results of salesmanship are even considered profits. While an investor is concerned with the profits from an investment, political economy is concerned with the distribution of wealth. It accounts for the amount that goes to landowners as rent, workers as wages, and capitalists as interest. Making this distinction is necessary to understanding the rightful basis of ownership and the organization of modern societies. The term profit does not serve its purpose.

The Law of Rent

To reiterate, in common speech rent is paid for the use of a house, car, or a tool. In political economy, rent is the gain from land only. That portion of any product, which is claimed because of the ownership of land, is called rent.

The margin of production, or cultivation, refers to the best land that is free—or the least productive land in use, which is the same thing and applicable when there is no free land. This is true because no one will use a particular parcel of land if a better one is still free. If labor must resort to land of inferior quality to get it free, the potential rent (advantage) on all better lands will increase.

The Law of Rent: **“The rent of land is determined by the excess of its produce over that which the same application of labor and capital can produce from the least productive land in use.”** As stated before: the least productive land in use is also the best land that is free (can be used without the payment of rent), if there is any. When there is no free land, it is the greater productivity above the least productive land in use. Even though the land is not free for others to use, it will not yield more than enough to pay wages and interest.

To re-emphasize, the Potential Rent does not depend on a particular parcel of land’s own productivity (ability to yield wealth), but on its potential productivity as compared to the best land that is still free for all others (can be had for nothing) at the margin of production. If the free land margin extends to land of inferior quality, the rent on all better land will increase.

That portion of any product, which is claimed because of the ownership of land, is called rent—even if the owner and user is the same person. The Potential Rent (rental value) of land is determined by what people pay for its use. If no one is willing to pay for its use, land has **no** Potential Rent.

The Potential Rent will be equal to what the landowner would have enjoyed if the most efficient ratios of labor and capital were applied to a particular parcel of land. However, because no two people are equally efficient, the Potential Rent is measured by the most that other people are willing to pay for the use of land in the marketplace.

In agriculture, it is not only superior fertility, but also nearness to markets that make some land more potentially productive than other land. In mining, productivity reflects the cost of extraction and

transportation to factories and markets. In commerce or sales, the concept of potential productivity is based largely on the number of potential customers.

The highest rents are found in commercial and industrial districts, and on mineral lands.

The laws of wages and interest taken together can infer the law of rent. After labor and capital (the producers) get their portion of any product, based upon what they can produce at the margin, what is left goes to owners of land as rent. Other monopolies take some of what would otherwise go to wages, interest, and rent. However, wealth that goes to taxes and other monopolies may be thought of as diminishing what is produced. It is not part of the natural laws of distribution.

In the following chart the numbers represent a hypothetical amount that each grade (block) of land would yield if used most efficiently. The grey area represents land that is owned. The un-shaded blocks to the right represent the land that is still free. Since there is free land that will yield 6, labor and capital will be paid at least 6 in wages & interest on all better lands. Rent, which is listed on the 3rd row, is determined by simply subtracting what labor and capital get from what they produce. The remainder goes to the owners of land as rent. It may help to think of it as 6 units of wealth per year, or 6 dollars worth of wealth per day. If you think of it in terms of money there is no inflation (money losing value).

Wealth Produced	9	8	7	6		5	4	3	2
Wages & Interest	6	6	6	6					
Rent	3	2	1	0					
	Land already owned					Land still free			

In the second chart below: As the place where land is free has moved from that which will yield 6 to 5, therefore, the amount that can be claimed as wages and interest falls from 6 to 5 as well. Rent takes the difference.

Wealth Produced	9	8	7	6	5		4	3	2
Wages & Interest	5	5	5	5	5				
Rent	4	3	2	1	0				
	Land already owned						Land still free		

Student: _____

Henry George Institute - Fundamental Economics - **Questions Lesson 3**

Population and Subsistence

1. What is the Malthusian theory, often advanced to explain the persistence of poverty?
2. In supposedly over-populated countries, are there large unused and underused areas of potentially productive land?
3. In these countries, does all the wealth go to the people who produce it?
4. In the various countries of the world, is there any consistent correlation between poverty and density of population?
5. Where do we find the greatest evidences of wealth, in densely populated communities or in sparsely populated communities?
6. Does the increase of population decrease or increase the power to produce wealth?

The Laws of Distribution

7. In political economy, what is meant by:
 - (a) the distribution of wealth?
 - (b) the laws of distribution?
8. Do the laws of distribution account for the entire product?
9. How are taxation and the income from monopolies considered in regard to the three avenues in the distribution of wealth?
10. Is capital a necessary factor in the production of wealth?
11. Is wealth always divided into three parts? Explain.
12. Why is the term “profits” misleading in the study of political economy?

The Law of Rent

13. How does the common meaning of the term “rent” differ from its meaning in political economy?

14. What is the margin of production?

15. What is the Law of Rent?

16. Does the rent of land depend only on its own productivity, or on its productivity as compared with land that can be had for nothing?

17. If labor must resort to land of inferior quality to get it free, what now happens to the rent on all better lands?

18. If the same person is both owner and user of land, can there be rent?

19. If a parcel of land has no potential rent, would anyone be willing to pay for it?

20. What qualities make some land more productive than other land in the following kinds of production?

(a) Agriculture:

(b) Mining:

(c) Commerce:

21. In what way is the Law of Rent inferred from the Laws of Wages and Interest?

Fundamental Economics Henry George Institute - **Answers**

LESSON 3 - Population and Subsistence - The Laws of Distribution.

1. What is the Malthusian theory, often advanced to explain the persistence of poverty? That population tends to increase faster than subsistence. According to this theory, a point is reached where the earth can longer support the population.
2. In supposedly over-populated countries, are there large unused and underused areas of potentially productive land? Yes; large unused areas and inefficiency of production indicate that a great deal more could be produced in these countries than is being produced. (Example: Iraq has a sparse population. Once a rich agricultural country, its people now live in poverty despite oil development. Denmark has a dense population and has a high and well- distributed standard of living despite poor natural resources.)
3. In these countries, does all the wealth go to the people who produce it? No. In all such countries a large number of non-producers are supported in luxury and production is retarded by unjust laws. (Examples may be found everywhere in the world.)
4. In the various countries of the world, is there any consistent correlation between poverty and density of population? No. High standards of living prevail in some countries which have either low or high densities of population; and the same is true of low standards of living.
5. Where do we find the greatest evidences of wealth, in densely populated communities or in sparsely populated communities? The greatest per capita (person) production of wealth is found in densely populated countries.
6. Does the increase of population decrease or increase the power to produce wealth? The increase of population increases the power to produce wealth. A greater number of people can produce a larger amount of wealth per capita (person) than a smaller number. The concentration of population, the specialization of labor, and the exchange of wealth enable each worker to produce more wealth and services.

The Laws of Distribution

7. In political economy, what is meant by: (a) the distribution of wealth? The division of wealth among the factors that produce it.

(b) the laws of distribution? The natural laws which determine what portion of wealth produced is the return to each factor of production, i.e., land, labor, capital.
8. Do the laws of distribution account for the entire product? Yes, these laws must account for the distribution of the entire product. Otherwise the Laws of Distribution would be incomplete.

9. How are taxation and the income from monopolies considered in regard to the three avenues in the distribution of wealth? Taxes and monopoly profits are impositions made after the primary distribution of wealth among the factors that produce it. The distribution of wealth among labor, capital and land is an invariable function of natural law; the divisions made by taxation or monopoly are variable and the product of legislation and privilege.

10. Is capital a necessary factor in the production of wealth? No; labor exerted on land without the aid of capital can produce wealth, although very inefficiently.

11. Is wealth always divided into three parts? Explain. Not always. Without capital, for example, the produce may be divided as rent and wages; or only as wages where land does not yield rent; or only as wages and interest where capital is used but land is free.

12. Why is the term “profits” misleading in the study of political economy? Because it is indefinite. A “profit” is any amount received in excess of an amount invested. It may consist of rent, wages or interest, or any combination of them. “Profit” is a useful concept in business, but not in political economy, where the goal is to understand the production of wealth and its distribution among clearly defined factors.

The Law of Rent

13. How does the common meaning of the term “rent” differ from its meaning in political economy? In common parlance, rent includes payment for use of buildings, machinery and other forms of capital, whereas such returns are really interest. In the economic sense, rent represents a return only for the use of land.

14. What is the margin of production? The best land that can be had for nothing, or the least productive land in use. It’s the same thing because no one would use less productive land while better land was free.

15. What is the Law of Rent? The rent of land is determined by the excess of its produce over that which the same application (of labor and capital) can secure from the best land that can be had without the payment of rent, or the least productive land in use (the margin of production).

16. Does the rent of land depend only on its own productivity, or on its productivity as compared with land that can be had for nothing? The latter. No matter how productive it may be, land will yield rent only if it has a greater productivity than land that can be had for nothing.

17. If labor must resort to land of inferior quality to get it free, what now happens to the rent on all better lands? The rent of all better lands will increase. This is so

because the relative productive potential of all better lands will now be higher as compared to free land.

18. If the same person is both owner and user of land, can there be rent? Yes. Rent is whatever the owner might have obtained by letting the land to another person.

19. If a parcel of land has no potential rent, would anyone be willing to pay for it? No, people are only willing to pay for land if it offers an advantage.

20. What qualities make some land more productive than other land in the following kinds of production?

(a) Agriculture: Fertility and nearness to markets.

(b) Mining: Abundance and accessibility of mineral resources.

(c) Commerce: Nearness to population, transportation communication and potential customers.

21. In what way is the Law of Rent inferred from the Laws of Wages and Interest? $\text{Production, minus Wages \& Interest} = \text{Rent}$. In the natural distribution of wealth, after labor and capital get their share for producing a product, what is left goes to rent. Rent is, therefore, called the surplus.

Lesson 4 — The Law of Interest and The Law of Wages

Based on Progress & Poverty, Book III, Chaps. 3 to 8

In establishing the law of rent, wages and interest were considered together. Now the focus narrows to study of the laws of interest and wages separately. The law of interest comes first because ultimately wages are the most important focus of the course.

Review

Interest as used in political economy refers only to the return to capital—products used to produce more products for exchange. It does not include the payments for the loan of money. Land, remember, is not capital because it was not produced. The payment for land is rent. The income from patents, copyrights, licenses, and franchises are not interest. Their incomes are from monopolies. Only in cases where stocks or bonds represent a claim on capital (products of labor) do their returns represent economic interest. The dividends from the stock market most often include income from land and other monopolies.

When people say that capital employs labor, they are referring to one group of people who hire another group of people. In reality, it is not tools and machinery that employ (use) people, but people that employ (use) tools, machinery, buildings, and products that are intended for sale. Therefore, in political economy it is labor that employs capital.

The quantity of capital may be increased by either producing more capital, or by redirecting existing wealth from consumption to production. The quantity of capital may be decreased by the wear and tear of buildings and machinery, a reduction in inventory, or by the transfer of existing wealth from production to consumption.

The Cause and the Law of Interest

Labor, with the use of capital, produces wealth. How is it determined what portion of any product goes to the workers (labor), and how much goes to the owners of the capital involved in producing it? It is the same reason why people who borrow capital, are expected and willing to pay back more than they borrowed.

People initially think that since capital increases the results of labor, interest is the reward for greater productivity—more dirt can be moved with a wheelbarrow than the bare hands; more firewood can be obtained with a saw; more printing can be done with a press. However, the greater productivity that results from the use of capital is not the reason people pay interest. The following illustrates a situation in which capital increases production, but the borrower is not willing to pay interest.

Suppose that James and William have equal skill and knowledge. James has an extra bow and a sets of arrows. William has none. James offers to lend William the bow and arrows for one year. They both agree that the bow & arrows took two weeks to make and will last for 50 weeks. If William borrows the bow and arrows, he can hunt for the first 50 weeks of the year, and take the two remaining weeks to make a new bow and arrows for return. Otherwise, James would not be getting back what he lent: a new bow and arrows.

Suppose James offer to lend the bow and arrows was conditioned upon not only getting back a new bow and arrows, which were borrowed, but also some of the meat and fur as well. He might have said give me the difference between what you would likely have caught with stones you picked up on the way and what you do catch with the bow and arrows. If that were the offer, the alternative is obvious. William would have made his own

bow and arrows. He would have taken the first two weeks to make his own bow and arrows and used them for the remaining 50 weeks to hunt. Whether he takes the first two weeks to make a bow and arrows and hunts for the remaining 50 weeks, or he borrows a bow and arrows, hunts for the first 50 weeks, and takes the remaining two weeks to make a new bow and arrows for return, it makes no difference. Either way William gets the exact same result: fifty weeks worth of meat and fur, and a worn out bow and arrows. (Full elaboration Progress and Poverty pg.177)

In this example, the use of capital produced a far greater result—a result that was not possible without the use of capital. Yet, William was not willing to borrow the capital (bow & arrows) if he had to pay interest. Therefore, we must conclude that the cause of interest comes from something other than the increased productive power that capital gives to labor. If all production were of the nature of bows and arrows, it is doubtful if interest would be asked for or paid except under special circumstances. However, some production is conceptually different; it is used to harness the productive and reproductive forces of nature.

Suppose you put away some freshly made wine. Does it get old and loose its value? No, as it ages, it increases in value. What about seeds and animals that grow? Wine does not begin to age until it is prepared; seeds do not grow until they are planted. If you want to borrow wine or seeds, the person who lends them to you would expect you to pay them interest equal to what the wine or seeds would have increased in the value, had they kept them.

By borrowing wine or seeds (capital), you can harness the reproductive forces of nature immediately, and by doing so, experience a larger total result at the end of the year. This, Henry George believed was the basic cause of interest.

There may be other causes of interest. A solar collector or a windmill, once built and put in place collects an inexhaustible source of energy. Once in place the owner can spend their time building another one, or go on vacation. The important thing is that it doesn't begin to collect the energy until it is produced and in place. If you borrow an existing windmill, you get energy immediately. For that advantage people are willing to pay interest.

If machines eliminate steps that are originally necessary, but never need repeating as long as the capital is maintained, then there is an advantage of time in the use of existing capital, and a willingness to pay interest for that advantage. Suppose that a modern steel mill is built. As long as it is maintained, there are many primitive steps like making the first iron and steel that will never have to be performed again. For that advantage people pay interest. Consider a recipe. Having once been typed into a computer, it can be copied and given to an infinite number of other people in a matter of seconds. However, if all the copies are lost, someone will have to retype it before it can again continue to be produced and sent to people in seconds a copy. Interest for the use of an existing copy would be payment for never having to re-type it ever again.

Interest is a payment for the use of existing capital, which stems from the advantage of time.

In the first mode of production, (adapting) the primary benefit of capital is in its use, and primarily enjoyed by the user. In the second mode of production (growing) the primary benefit of capital is in its increase, and enjoyed by the owner of the capital. Any labor involved in the process of affecting that increase must be paid out of that increase, and paid as much as they could have produced in the first mode of production, like carpentry.

Any one who borrows capital for use in adapting, like carpentry, will have to pay as much as that capital would have increased in value were it maintained in a form capable of increase like or wine that ages or seeds that grow. In the case of the hunter, he might agree to borrow the bow and arrows and pay interest if the meat and fur were superior to what they would be in two weeks when the weather was warmer.

The maximum return that can be obtained for the use of capital is the entire increase in the value of the capital. In the analysis of George, this resulted from the productive and reproductive forces of nature. That is to say: the difference between what the capital (a crop that grows) would have been worth when you borrowed it, and what it would have been worth when you returned it—minus anything that was paid to labor necessary to affect the increase in value. Any larger return would be at the expense of wages.

Since rabbits increase faster than horses, one might think that there would be a tendency to raise only rabbits. However, as more rabbits are bred, their supply goes up, and their value goes down (supply and demand); as fewer horses are bred, their value tends to go up. This compensates for the faster increase in the number of rabbits, and brings the return from different forms of capital toward a common level.

Sometimes capital yields an exceptional increase, like the value of wine from an extraordinary year for the grapes. Sometimes capital yields little or no increase, due to a blight or a drought. The greater the risk, the less competition, and the higher the returns are likely to be. Therefore, in the long run, risk determines the different rates of interest. In the aggregate (total) risk is averaged, and interest tends to a common level.

The minimum return that can be obtained for the use of capital is the return of capital. That is to say, a value equal to the one lent. Otherwise, there would be a penalty for lending capital.

People will borrow capital only if they gain as much as they would have gotten had they first saved up their own capital and used it. Those who own capital will only lend it if they are paid as much as they would have gained by keeping it, and enjoying the increase in its value.

Capital used for adapting enhances wages. Capital used for growing yields an increase. “The normal point of interest will tend to settle around that point which will make the rewards of labor and capital equally attractive. That is to say, will give an equal result to either for an equivalent effort or sacrifice made.” (Full elaboration Progress and Poverty pg.195 - 199) Wages and interest tend to an equilibrium, because no one will pursue wages if they can get a higher reward from the increase of capital, and visa versa.

If the rate of interest tends to rise above the point of equilibrium with wages, workers will direct their labor to the production of capital, increasing the supply of capital and reducing the supply of labor available for the use of capital. This will increase wages and reduce interest.

If the rate of interest tends to fall below the point of equilibrium with wages, workers will direct their labor to the use of existing capital, consuming the supply of capital for loan, and creating a shortage. This will increase the rate of interest and bring wages and interest back into equilibrium.

Suppose there was a shortage of sewing machines in relation to the availability of dressmakers: Interest for the use of sewing machines would rise; more sewing machines would be produced and offered for loan; and this would continue until there were more sewing machines than dressmakers. Suppose there was a shortage of dressmakers in relation to sewing machines: Wages would go up and more people would become dressmakers. This would continue until there were more dressmakers than sewing machines.

Although there is no longer free land available today, the free land relationship of capitalists to landowners that existed in the 18th and 19th centuries will be explored first before analyzing the distribution of interest under the present circumstances. It is on the free land that labor and capital obtain the total amount of wealth produced.

The general rate of interest will be whatever is necessary to induce the storing up of capital where the land is free. Henry George believed that interest stemmed from the advantage of time in the use of existing capital, and the general rate of interest is equal to the average value resulting from that increase on the best land that is free. This is also the least productive land in use, since no particular land would be used while superior land was free.

When there is a greater advantage of time on superior land, that greater value resulting from the use of existing capital is taken by landowners as rent.

“I have endeavored at this length to trace out and illustrate the law of interest more in deference to the existing terminology and modes of thought than from the real necessities of our inquiry. . . In truth, the primary division of wealth in distribution is dual, not tripartite. Capital is but a form of labor, and its distinction from labor is in reality but a subdivision of labor, just as . . . skilled and unskilled would be. . . we have reached the same point as would have been attained had we simply treated capital as a form of labor, and sought the law which divides the produce between . . . natural substances and powers, and human exertion—which. . . by their union produce all wealth.” Henry George.

“. . . the general rate of interest (everywhere) will be determined by the return to capital upon the poorest land to which capital is freely applied—that is to say, upon the best land open to it without the payment of rent.” Henry George.

The Law of Interest: Interest will equal whatever is necessary to induce the storing up of capital on the best land that is free or the least productive land in use.

The Law of Wages

In a complex society there are great differences in wages. They are attributed to different skills and abilities, the expense of learning them, and the agreeableness or disagreeableness of occupations. These characteristics act through supply and demand to determine individual rates of wages.

When free land presents a natural opportunity in farming, timber or mining, it sets the standard for wages in manufacturing and commerce, which are conducted on superior land that is fully owned. No one will work for an employer unless she is paid more than she could produce working for her self where the land (opportunity) is free.

To reiterate: where land is free the entire product goes to the producers (Labor and capital).

The law of wages: Where rent arises, ***“Wages [everywhere] are determined by what labor can produce on the best land that is free.”***

Following the relationship of wages to interest by way of sewing machines and dressmakers, it may be important to reiterate that wages and interest tend to an equilibrium, and that when the general rate of wages go up, so does the rate of interest. When the general rate of wages go down, so does the general rate of interest. This is observed with recessions and depressions and their recoveries. As stated before, people would not be inclined to use existing capital and receive wages if they could experience a higher standard of living by producing capital and receiving an income from the capital they produced.

Historically it is known that the returns to capital have gone up at the same time wages went up, and down at the same time that wages went down. Henry George sites an extreme period where interest was 25% in California during the early days of the gold rush. At the same time, a cook in a San Francisco restaurant was making \$500 (\$16,000 in 2019 dollars) per month, and sailors had to be paid sever times their normal pay before they

would go back to sea. Once all the land with gold was monopolized, wages and interest both fell to the standard rates that prevailed in the eastern states (California was three months journey by ship at the time).

Although wages and interest together may go up or down as an amount, they may at the same time go down or up in proportion to rent. That is to say, they may become a larger amount while becoming a smaller portion of the product.

If all natural opportunities were reduced to ownership (there were no free land), wages and interest would fall to a bare minimum. It would fall to an amount below which productivity would fall more than wages and interest fell. Without free land, wages would fall to an amount below which the least productive workers would be hungry and weak and produce less wealth; the skilled workers would lose the incentive to learn and accumulate superior skills and knowledge, and productivity would fall; and the incentive to lend capital would be lost, and productivity would fall from the lack of capital. This will be more fully elaborated in the next lesson.

Correlation of the Laws of Distribution

There are two axioms upon which all economic reasoning is based: “That people seek to satisfy their desires with the least exertion”, and “Human desires are unlimited”. These are self-evident truths, motives that we adhere to without conscious thought. We may desire fresh air and exercise, so we take the long way home through the park, but that was our desire, rather than getting home faster with less steps. We may want to help others, or accumulate more knowledge. We may even want to consume less food, but there is always something else we want. It is, therefore, with great confidence that we apply these axioms to the laws of distribution.

Wages, interest, and rent are determined by the margin of production, and account for the full division of the product. Taxes and other confiscations will be analyzed later.

In summary: “The law of wages accords with and explains universal facts that without its comprehension seem unrelated and contradictory. It shows that: Where land is free and labor is unassisted by capital, the whole produce will go to labor as wages. Where land is free and labor is assisted by capital, wages will consist of the whole produce, less that part which is necessary to induce the storing up of labor as capital. **Where land is subject to ownership and rent arises, wages will be fixed by what labor could secure from the highest natural opportunities open to it without the payment of rent (free land)—less that part which is necessary to induce the storing up of labor as capital.**

“Where natural opportunities are all monopolized, wages may be forced by the competition among laborers to the minimum at which [the least productive] laborers will consent to reproduce.” Henry George

Student Name: _____

Henry George Institute - Fundamental Economics - Questions Lesson 4

The Law of Interest

1. What is interest as used in political economy and how does it differ from interest in its commercial sense?
2. a) Is land capital? ___ b) Is the return from land interest? ___
3. Is the income from patents, copyrights, licenses, and franchises economic interest in political economy?
4. Does capital employ labor or does labor employ capital?
5. How is the quantity of capital increased and decreased?

6. a) Is the maximum return that can be obtained for the use of capital the greater productivity from its use ____, or the increase in the value of the capital ___?
b) What is the minimum return?
c) What is the normal point of interest?
7. Why do wages and interest tend to an equilibrium?
8. If interest tends to rise above the point of equilibrium with wages, how will the balance be re-established?
9. Suppose there were enough dressmakers, but a shortage of sewing machines:
a) What would happen to the income from sewing machines?
b) How would production of sewing machines be affected?
c) When would this tendency slow down?
10. Suppose a shortage of dressmakers in relation to the availability of sewing machines:
a) What would happen to their wages?
b) Would the same number of workers continue making sewing machines or would some of them become dress makers?

c) When would this tendency slow down?

11. Where do labor and capital obtain the total amount of wealth produced?

12. What is the Law of Interest?

The Law of Wages

13. In a complex society why do we find great differences in wages?

14. What are the occupations which most frequently use land at the margin of production and on whose wages all other wages depend?

15. What will be the lowest wage for which a person will agree to work for an employer?

16. Where land is free, what part of production will go to the producers?

17. Where rent arises, what determines wages?

18. What is the Law of Wages?

19. If all natural opportunities were reduced to ownership, what would happen to wages?

20. When wages fall, does interest rise—or do wages and interest rise and fall together?

Correlation of the Laws of Distribution

21. From what fundamental principle (axiom) of human action do the three laws of distribution arise?

22. At what common point are rent, wages and interest determined?

23. Do the Laws of Rent, Wages and Interest account for the full division of the product?

Henry George Institute - Fundamental Economics - **Answers:** Lesson 4

The Law of Interest

4. What is interest as used in political economy and how does it differ from interest in its commercial sense? In political economy, interest is that part of wealth which is the return to the owners of capital. It does not include commercial interest, which is any return on a monetary loan and usually includes compensation for risk.
5. a) Is land capital? No, land is not produced by labor.
b) Is the return from land interest? No, in political economy, the return from land is rent. The return on a mortgage is called “interest,” but in political economy, only the return to capital is called interest.
6. Is the income from patents, copyrights, licenses, and franchises economic interest in political economy? No. The income from patents, copyrights, licenses, and franchises are not interest. Their incomes are from are monopolies.
4. Does capital employ labor or does labor employ capital? In political economy, capital is a form of wealth, not a class of persons. Capital is employed by labor as an aid in producing wealth. It is, therefore, labor that employs capital.
5. How is the quantity of capital increased and decreased? Capital is increased by being produced and by converting existing wealth into capital. Capital is decreased by being consumed, worn out, or by converting capital to consumer wealth.
6. a) Is the maximum return that can be obtained for the use of capital the greater productivity from its use? No, or the increase in the value of the capital? The entire increase in the value of the capital. Any larger return to capital would involve a loss to labor.
b) What is the minimum return? The replacement of capital. Any smaller return to capital would involve a loss to the owners of capital. (In exceptional cases an owner might take a loss rather than allow capital to deteriorate entirely.)
c) What is the normal point of interest? Interest will tend to settle around that point which will make the rewards of labor and capital equally attractive—that is, will give an equal result to either for an equivalent effort or sacrifice made.
7. Why do wages and interest tend to an equilibrium? Because otherwise labor would not accept the use of other people’s capital, and the owners of capital would not place it at the disposal of other people’s labor.

8. If interest tends to rise above the point of equilibrium with wages, how will the balance be re-established? There will be a tendency to produce more capital, or a greater portion of existing (consumer) wealth will be applied to use as capital. The resulting increase of capital will tend to reduce interest rates.

9. Suppose there were enough dressmakers, but a shortage of sewing machines:

a) What would happen to the income from sewing machines? Interest would increase.

b) How would production of sewing machines be affected? More would be produced.

c) When would this tendency slow down? When sewing machines were equal to dressmakers.

10. Suppose a shortage of dressmakers in relation to the availability of sewing machines: a) What would happen to their wages? Their wages would go up.

b) Would the same number of workers continue making sewing machines or would some of them become dress makers? Some of them would become dressmakers.

c) When would this tendency slow down? When there were as many dressmakers as sewing machines.

11. Where do labor and capital obtain the total amount of wealth produced? On the best land obtainable without the payment of rent (the margin of production).

12. What is the Law of Interest? The Law of Interest: Interest will equal whatever is necessary to induce the storing up of capital on the best land that is free or the least productive land in use.

The Law of Wages

13. In a complex society why do we find great differences in wages? Because of different skills and abilities; agreeableness or disagreeableness of occupations; expense of learning them—supply and demand.

14. What are the occupations which most frequently use land at the margin of production and on whose wages all other wages depend? The extractive

industries, those which procure wealth directly from nature: homesteading, farming, mining, lumbering, hunting, etc.

15. What will be the lowest wage for which a person will agree to work for an employer? What the worker could produce for himself where the land is free.

16. Where land is free, what part of production will go to the producers? The entire product.

17. Where rent arises, what determines wages? Where rent arises, wages are determined by what labor could have produced on the best land that is still free.

18. What is the Law of Wages? The Law of Wages: Wages will be equal to what labor could have produced on the best available land that is still free.

19. If all natural opportunities were reduced to ownership, what would happen to wages? In the absence of free land, wages would tend to an amount below which productivity would fall more than wages were reduced. The least educated and skilled would get weak and sick; the higher skilled and better educated would lose the incentive to acquire the greater skills and knowledge. This is counteracted with Minimum Wage laws and other interventions by the government.

20. When wages fall, does interest rise—or do wages and interest rise and fall together? Wages and Interest rise and fall together.

Correlation of the Laws of Distribution

21. From what fundamental principle (axiom) of human action do the three laws of distribution arise? From the principle that people seek to satisfy their desires with the least exertion.

22. At what common point are rent, wages and interest determined? At the margin of production (The best land that can be used without paying rent).

23. Do the Laws of Rent, Wages and Interest account for the full division of the product? Yes. The laws of distribution account for the full division of the product.

Lesson 5 — The Effects of Material Progress upon the Distribution of Wealth

This lesson covers Progress & Poverty, Book IV.

The increase in population and improvements in the arts of production and exchange, which include knowledge, education, government, police, and even manners and morals so far as they increase the power of producing wealth, contribute to material progress.

Effect of Increase of Population

The increase in population makes possible greater divisions and specializations of labor, which increases productivity through trade. Therefore the increase in population increases the productive power of labor.

The increase in population also extends the margin of production (free land) to less potentially productive land. However, the increased productivity on all superior lands, which have denser populations offsets the lower productivity on the free-land margin that has come into use. Therefore, the total productivity of all people increases.

Productivity increases with the density of population. At the same time, the free land where wages and interest are determined is always sparsely populated. Therefore, rent, which measures the difference in productivity between any particular parcel of land and that which is free, is becoming a larger portion of what's produced in total. Wages, which are equal to what labor could have produced on the best land that is free, are becoming a smaller portion of the total production.

Increasing population can increase rent as a quantity on superior lands without reducing wages and interest as a quantity. The free-land margin extends to less potentially productive land, which reduces wages and interest. However, this is counteracted by the close proximity to superior lands with increasingly denser populations. So, it tends to increase productivity on the free-land margin. By being able to trade with people where population is more dense, those at the margin, to a lesser extent, can increase their specializations and increase their productivity—compensating for the potentially less productive land, and raising wages and interest as a quantity (amount).

Because productivity is increasing faster on superior land with denser populations, rent is becoming larger in portion and wages and interest are becoming a smaller portion of what's produced.

Rent and the increase of rent are not due to anything that the landowner as a landowner has done. Rent and the increase of rent are primarily due to the disproportionately greater population on particular land. The greater the density of population, the greater the potential to sub-divide labor, produce in large quantities, and trade (up to a point). Infrastructure and tall buildings enable a greater density of population and efficiency of cooperation. However, only if the population does become more dense, does the greater productivity occur and the rent increase.

Effect of Inventions

Inventions, innovations, and new discoveries save labor by enabling the same result with less labor or a greater result with the same labor. Labor saving inventions enable other things to be produced with the time saved, increasing the results of all labor. They increase total production.

You can't make something out of nothing. As the efficiency of production is increased, the demand for land goes up. More materials are mined to make more products; more farmland can be cultivated with machines for better tasting food; special land is used for manufacturing and trade. The better land is used more intensely, and new land is brought into production. The increased demand for land extends the free-land margin to inferior locations, and increases rent. However, inventions counteract the fall of the margin by increasing productivity on the free land. This more than compensates for the extension of the margin and wages and interest increase as a quantity (amount).

Because most inventions increase productivity more on naturally superior land and land where

population is dense than where population is sparse and the land is free, rent tends to increase as a portion of what's produced as well as a quantity. Wages and interest tend to become a smaller portion of what's produced even though they are increasing as a quantity.

For example, farming machinery increases the results of labor in relation to fertility. Mining machinery increases the results of labor in relation to the quality of the vein and the ore. Automation in factories increases production in relation to availability of supplies and the efficiency of transportation. The elevator enabled land to be used more intensely. Its use slowed the extension of the margin by enabling denser populations. Non-the-less, the elevator saved time and energy resulting in greater productivity on particular lands, so it increased rent as an amount and as a portion of the product as well.

Governmental expenditures such as roads, bridges, sewers, drainage, and irrigation projects give us the same result with less exertion or a greater result with the same exertion. If it is close enough to the free land opportunity, it can raise wages and interest by enabling increased population and efficiency at the free land margin. However, it generally increases population and productivity more on naturally superior land that is already owned with greater populations than at the free land opportunity. So, while it may raise wages and interest, it raises rent as an amount and as a proportion of what's produced.

As long as it is close enough to increase productivity where the land is free, it increases wages and interest as an amount. However, until you have traffic jams etc, the denser the population, the more the infrastructure increases productivity. So, because the free land is sparsely populated, the infrastructure increases rent on densely populated land as an amount and as a portion of what's produced.

Effect of land Speculation

As it becomes evident that the rental value of land increases with the increase in population and new technologies, people tend to acquire and hold more land than they need. They speculate that population and invention, and therefore, the rental value of land will increase. That is why the first settlers to a new region generally try to get more land than they need. People often buy land and hold it for the increase in its value.

Holding any land out of use, whether it is farmland, mineral land, or land in cities, prematurely extends the margin and lowers wages and interest as an amount. Underuse of land, like a one-story building where a five-story building would be the most economical use, has the same effect. In the year 2017 every American city has many underdeveloped sites. They range from slightly less than the highest and best use to completely vacant. This increases the sprawl of suburban development and requires an extension of the infrastructure. The selling price of farmland near cities is not based on the land's potential to grow things, but on the higher future value as residential and commercial land when the city expands to it.

Land speculation is not always profitable. The value of some land increases too slowly. Sometimes taxes offset some of the gains. Sometimes land values fall. However, land speculation always moves labor and capital to less potentially productive land. Unused and underused urban land moves people to less productive rural areas; it creates an impediment to cooperation; it separates people who would be more efficient in closer proximity; it increases the cost of the infrastructure (more roads, pipes and wires), and the time and distance of transportation—all of which reduces production. And, it lowers wages and interest as a quantity (amount). Although it reduces the amount of wealth that would otherwise be produced, it reduces wages and interest even more than it reduces production, so, rents increase.

Land speculation creates a shortage of land and increases the cost of rental housing, while adding a speculative premium based on expectations of future increases to the cost of buying a house.

Private property in land engenders (encourages) land speculation, which prematurely extends the margin until there is no free land. When labor and capital have no alternate way to employ themselves, wages and interest tend to a bare minimum below which productivity would fall more than wages and interest.

Wages of the least productive, least demanded workers, tend to a bare subsistence, below which they would be hungry or sick and actually produce less. With no free land, the wages of workers with superior knowledge and skill fall to a point below which they would lose the incentive to acquire the superior knowledge and skill, and productivity would fall. Without free land the rate of interest would fall to the point below which there would be no incentive to produce and lend capital (buildings, machines, and inventory), and productivity would fall. Governments intervene with things like the Minimum wage and the eight-hour day, but in their absence, wages and interest tend to the point below which productivity would fall more than wages and interest were lowered. Therefore, the rent would fall too. That is the limit to the speculative advance of rent.

Land speculation reduces productivity and extends the free-land margin. It creates a shortage of land. Rent may be calculated by separating what is paid for the use of a house from what is paid for the use of land. This is done by subtracting what it costs to provide a house (building) and other improvements from what is paid in total for the land and improvements. Interest is paid for the buildings and other improvements; wages for all labor in maintaining and replacing the improvements; and what is paid in addition to wages and interest is rent for the use of land (location).

The free land margin of production may seem irrelevant since there hasn't been a frontier with free land for over 100 years. However, by seeing why wages and interest tend to remain constant, and why we no longer have any free land, we may have more confidence in determining the best course of action in raising wages and creating full employment today.

The population continues to increase; inventions continue to replace some workers while enabling others to utilize more land, and previously unused land continues to come into production. However, even in the best of times too much land is underused or completely withheld from production. The difference between the amount of land needed to employ labor and capital, and the amount of land actually in full use will equal the level of unemployment. It will be the least skilled and educated workers who are unemployed, but no increase in education or skill can change the fact that jobs require land. You can't make something out of nothing. You must have some place to work. Land speculation creates a shortage of jobs, low wages, and a shortage of housing.

Chart 1. Some land that yields 6 is still free. Therefore, Wages & Interest = 6

Wealth Produced	9	8	7	6	5	4	3	2
Wages & Interest	6	6	6	6				
Rent	3	2	1	0				
	Land already owned				Land still free			

Chart 2. More people arrive. The margin extends. Only 5 land is free. Wages & Interest fall to 5

Wealth Produced	9	8	7	6	5	4	3	2
Wages & Interest	5	5	5	5	5			
Rent	4	3	2	1	0			
	Land already owned				Land still free			

Chart 3. Specialization doubles the results of labor & capital. Wages & Int. rise to 10

Wealth Produced	18	16	14	12		10	8	6	4
Wages & Interest	10	10	10	10		10			
Rent	8	6	4	2	0				
	Land already owned					Land still free			

Chart 4. Inventions, infrastructure, and public service double production.

Wealth Produced	36	32	28	24		20	16	12	8
Wages & Interest	20	20	20	20		20			
Rent	16	12	8	4	0				
	Land already owned					Land still free			

Chart 5. Greater efficiency requires more land. The margin extends to 16. Wages & Int. = 16

Wealth Produced	36	32	28	24	20		16	12	8
Wages & Interest	16	16	16	16	16		16		
Rent	20	16	12	8	4	0			
	Land already owned						Land still free		

The Increase in productivity more than compensates for the extension of the margin.

Chart 6. Land speculation extends the margin with unused land. Wages & Int. down to 8

Wealth Produced	36	32	28	24	20	16	12		8
Wages & Interest	8	8	8	8	8	8	8		8
Rent	28	24	20	16	12	8	4		
	Land already owned								

Chart 7. No free land. Wages and interest are as low as they can go without getting less produced.

The number “3” was picked arbitrarily. If 3 is the amount below which productivity falls, then everything above 3 would equal rent.

Wealth Produced	36	32	28	24	20	16	12	8	4	3	2	1
Wages & Interest	3	3	3	3	3	3	3	3	3	3	X	X
Rent	33	29	25	21	17	13	9	5	1	0	X	X

Private property in land, without a free-land opportunity, replaces chattel slavery with wage slavery.

Excerpt from Progress And Poverty - Book IV, Chapter 2, Paragraph 10

“Here, let us imagine, is an unbounded savannah, stretching off in unbroken sameness of grass and flower, tree and rill, till the traveler tires of the monotony. Along comes the wagon of the first immigrant. Where to settle he cannot tell—every acre seems as good as every other acre. As to wood, as to water, as to fertility, as to situation, there is absolutely no choice, and he is perplexed by the embarrassment of richness. Tired out with the search for one place that is better than another, he stops—somewhere, anywhere—and starts to make himself a home.

The soil is virgin and rich, game is abundant, the streams flash with the finest trout. Nature is at her very best. He has what, were he in a populous district, would make him rich; but he is very poor. To say nothing of the mental craving, which would lead him to welcome the sorriest stranger, he labors under all the material disadvantages of solitude. He can get no temporary assistance for any work that requires a greater union of strength than that afforded by his own family, or by such help as he can permanently keep. Though he has cattle, he cannot often have fresh meat, for to get a beefsteak he must kill a bullock. He must be his own blacksmith, wagon-maker, carpenter, and cobbler—in short, a "jack of all trades and master of none." He cannot have his children schooled, for, to do so, he must himself pay and maintain a teacher. Such things as he cannot produce himself, he must buy in quantities and keep on hand, or else go without, for he cannot be constantly leaving his work and making a long journey to the verge of civilization; and when forced to do so, the getting of a vial of medicine or the replacement of a broken auger may cost him the labor of himself and horses for days. Under such circumstances, though nature is prolific, the man is poor. It is an easy matter for him to get enough to eat; but beyond this, his labor will suffice to satisfy only the simplest wants in the rudest way.

Soon there comes another immigrant. Although every quarter section of the boundless plain is as good as every other quarter section, he is not beset by any embarrassment as to where to settle. Though the land is the same, there is one place that is clearly better for him than any other place, and that is where there is already a settler and he may have a neighbor. He settles by the side of the first comer, whose condition is at once greatly improved, and to whom many things are now possible that were before impossible, for two men may help each other to do things that one man could never do.

Another immigrant comes, and, guided by the same attraction, settles where there are already two. Another, and another, until around our first comer there are a score of neighbors. Labor has now an effectiveness which, in the solitary state, it could not approach. If heavy work is to be done, the settlers have a logrolling, and together accomplish in a day what singly would require years. When one kills a bullock, the others take part of it, returning when they kill, and thus they have fresh meat all the time. Together they hire a schoolmaster, and the children of each are taught for a fractional part of what similar teaching would have cost the first settler. It becomes a comparatively easy matter to send to the nearest town, for some one is always going. But there is less need for such journeys. A blacksmith and a wheelwright soon set up shops, and our settler can have his tools repaired for a small part of the labor it formerly cost him. A store is opened and he can get what he wants as he wants it; a postoffice, soon added, gives him regular communication with the rest of the world. Then come a cobbler, a carpenter, a harness maker, a doctor; and a little church soon arises. Satisfactions become possible that in the solitary state were impossible. There are gratifications for the social and the intellectual nature—for that part of the man that rises above the animal. The power of sympathy, the sense of companionship, the emulation of comparison and contrast, open a wider, and fuller, and more varied life. In rejoicing, there are others to rejoice; in sorrow, the mourners do not mourn alone. There are husking bees, and apple parings, and quilting parties. Though the ballroom be un-plastered and the orchestra but a fiddle, the notes of the magician are yet in the strain, and Cupid dances with the dancers. At the wedding, there are others to admire and enjoy; in the house of death, there are watchers; by the open grave, stands human sympathy to sustain the mourners. Occasionally, comes a straggling lecturer to

open up glimpses of the world of science, of literature, or of art; in election times, come stump speakers, and the citizen rises to a sense of dignity and power, as the cause of empires is tried before him in the struggle of John Doe and Richard Roe for his support and vote. And, by and by, comes the circus, talked of months before, and opening to children whose horizon has been the prairie, all the realms of the imagination—princes and princesses of fairy tale, mail-clad crusaders and turbaned Moors, Cinderella's fairy coach, and the giants of nursery lore; lions such as crouched before Daniel, or in circling Roman amphitheater tore the saints of God; ostriches who recall the sandy deserts; camels such as stood around when the wicked brethren raised Joseph from the well and sold him into bondage; elephants such as crossed the Alps with Hannibal, or felt the sword of the Maccabees; and glorious music that thrills and builds in the chambers of the mind as rose the sunny dome of Kubla Khan.

Go to our settler now, and say to him: "You have so many fruit trees which you planted; so much fencing, such a well, a barn, a house—in short, you have by your labor added so much value to this farm. Your land itself is not quite so good. You have been cropping it, and by and by it will need manure. I will give you the full value of all your improvements if you will give it to me, and go again with your family beyond the verge of settlement." He would laugh at you. His land yields no more wheat or potatoes than before, but it does yield far more of all the necessaries and comforts of life. His labor upon it will bring no heavier crops, and, we will suppose, no more valuable crops, but it will bring far more of all the other things for which men work. The presence of other settlers—the increase of population—has added to the productiveness, in these things, of labor bestowed upon it, and this added productiveness gives it a superiority over land of equal natural quality where there are as yet no settlers. If no land remains to be taken up, except such as is as far removed from population as was our settler's land when he first went upon it, the value or rent of this land will be measured by the whole of this added capability. If, however, as we have supposed, there is a continuous stretch of equal land, over which population is now spreading, it will not be necessary for the new settler to go into the wilderness, as did the first. He will settle just beyond the other settlers, and will get the advantage of proximity to them. The value or rent of our settler's land will thus depend on the advantage which it has, from being at the center of population, over that on the verge. In the one case, the margin of production will remain as before; in the other, the margin of production will be raised.

Population still continues to increase, and as it increases so do the economies which its increase permits, and which in effect add to the productiveness of the land. Our first settler's land, being the center of population, the store, the blacksmith's forge, the wheelwright's shop, are set up on it, or on its margin, where soon arises a village, which rapidly grows into a town, the center of exchanges for the people of the whole district. With no greater agricultural productiveness than it had at first, this land now begins to develop a productiveness of a higher kind. To labor expended in raising corn, or wheat, or potatoes, it will yield no more of those things than at first; but to labor expended in the subdivided branches of production which require proximity to other producers, and, especially, to labor expended in that final part of production, which consists of trade, it will yield much larger returns. The wheat grower may go further on, and find land on which his labor will produce as much wheat, and nearly as much wealth; but the artisan, the manufacturer, the storekeeper, the professional man, find that their labor expended here, at the center of exchanges, will yield them much more than if expended even at a little distance away from it; and this excess of productiveness

for such purposes the landowner can claim just as he could an excess in its wheat-producing power. And so our settler is able to sell in building lots a few of his acres for prices which it would not bring for wheat growing if its fertility had been multiplied many times. With the proceeds, he builds himself a fine house, and furnishes it handsomely. That is to say, to reduce the transaction to its lowest terms, the people who wish to use the land build and furnish the house for him, on condition that he will let them avail themselves of the superior productiveness which the increase of population has given the land.

Population still keeps on increasing, giving greater and greater utility to the land, and more and more wealth to its owner. The town has grown into a city—a St. Louis, a Chicago or a San Francisco—and still it grows. Production is here carried on upon a great scale, with the best machinery and the most favorable facilities; the division of labor becomes extremely minute, wonderfully multiplying efficiency; exchanges are of such volume and rapidity that they are made with the minimum of friction and loss. Here is the heart, the brain, of the vast social organism that has grown up from the germ of the first settlement; here has developed one of the great ganglia of the human world. Hither run all roads, hither set all currents, through all the vast regions round about. Here, if you have anything to sell, is the market; here, if you have anything to buy, is the largest and the choicest stock. Here intellectual activity is gathered into a focus, and here springs that stimulus which is born of the collision of mind with mind. Here are the great libraries, the storehouses and granaries of knowledge, the learned professors, the famous specialists. Here are museums and art galleries, collections of philosophical apparatus, and all things rare, and valuable, and best of their kind. Here come great actors, and orators, and singers, from all over the world. Here, in short, is a center of human life, in all its varied manifestations.

So enormous are the advantages which this land now offers for the application of labor, that instead of one man—with a span of horses scratching over acres, you may count in places thousands of workers to the acre, working tier on tier, on floors raised one above the other, five, six, seven and eight stories from the ground, while underneath the surface of the earth engines are throbbing with pulsations that exert the force of thousands of horses.

All these advantages attach to the land; it is on this land and no other that they can be utilized, for here is the center of population—the focus of exchanges, the market place and workshop of the highest forms of industry. The productive powers which density of population has attached to this land are equivalent to the multiplication of its original fertility by the hundredfold and the thousandfold. And rent, which measures the difference between this added productiveness and that of the least productive land in use, has increased accordingly. Our settler, or whoever has succeeded to his right to the land, is now a millionaire. Like another Rip Van Winkle, he may have lain down and slept; still he is rich—not from anything he has done, but from the increase of population. There are lots from which for every foot of frontage the owner may draw more than an average mechanic can earn; there are lots that will sell for more than would suffice to pave them with gold coin. In the principal streets are towering buildings, of granite, marble, iron, and plate glass, finished in the most expensive style, replete with every convenience. Yet they are not worth as much as the land upon which they rest—the same land, in nothing changed, which when our first settler came upon it had no value at all.

That this is the way in which the increase of population powerfully acts in increasing rent, whoever, in a progressive country, will look around him, may see for himself. The

process is going on under his eyes. The increasing difference in the productiveness of the land in use, which causes an increasing rise in rent, results not so much from the necessities of increased population compelling the resort to inferior land, as from the increased productiveness which increased population gives to the lands already in use. The most valuable lands on the globe, the lands which yield the highest rent, are not lands of surpassing natural fertility, but lands to which a surpassing utility has been given by the increase of population.

The increase of productiveness or utility which increase of population gives to certain lands, in the way to which I have been calling attention, attaches, as it were, to the mere quality of extension. The valuable quality of land that has become a center of population is its superficial capacity—it makes no difference whether it is fertile, alluvial soil like that of Philadelphia, rich bottom land like that of New Orleans; a filled-in marsh like that of St. Petersburg, or a sandy waste like the greater part of San Francisco.

And where value seems to arise from superior natural qualities, such as deep water and good anchorage, rich deposits of coal and iron, or heavy timber, observation also shows that these superior qualities are brought out, rendered tangible, by population. The coal and iron fields of Pennsylvania, that today are worth enormous sums, were fifty years ago valueless. What is the efficient cause of the difference? Simply the difference in population. The coal and iron beds of Wyoming and Montana, which today are valueless, will, in fifty years from now, be worth millions on millions, simply because, in the meantime, population will have greatly increased.

It is a well-provisioned ship, this on which we sail through space. If the bread and beef above decks seem to grow scarce, we but open a hatch and there is a new supply, of which before we never dreamed. And very great command over the services of others comes to those who as the hatches are opened are permitted to say, "This is mine!"

To recapitulate: The effect of increasing population upon the distribution of wealth is to increase rent, and consequently to diminish the proportion of the produce which goes to capital and labor, in two ways: First, by lowering the margin of cultivation. Second, by bringing out in land special capabilities otherwise latent, and by attaching special capabilities to particular lands.

I am disposed to think that the latter mode, to which little attention has been given by political economists, is really the more important. But this, in our inquiry, is not a matter of moment."

Henry George Institute - Fundamental Economics - Questions Lesson 5

1. Name the changes which contribute to material progress.

Effect of Increase of Population

2. Does the increase of population increase the productive power of labor?
3. What does increasing population tend to do to the margin of production?
4. What is the effect upon rent and wages as proportions?
5. Can increasing population raise rent as a quantity (amount) without reducing wages and interest as quantities?
6. Is the increase of rent due to anything done by the landholder as such?
7. To what is the increase of rent primarily due?
8. How do inventions and improvements in the productive methods save labor?
9. What is the effect of labor-saving improvements upon total production?
10. What is the effect of increased production upon the demand for land?
11. How does the increased demand for land affect:
 - a) the margin of production?
 - b) rent?
12. How do inventions counteract the fall of the margin?
13. What is the effect of inventions upon:
 - a) rent as a portion of production?
 - b) wages and interest as portions of production?

14. What is the effect of inventions upon: a) rent as a quantity?
b) What is the effect of inventions upon wages and interest as quantities?
15. What is the effect of governmental expenditures on drainage and irrigation projects, roads, and bridges on rent?
16. As material progress goes on and rent advances, why is some land held out of use?
17. How does withholding land from use affect the margin of production?
18. Do the first settlers in a new area take only the land they can use?
19. Is all the land in any city fully utilized?
20. Need land be withheld from use completely to lower the margin?
21. How does land speculation affect the purchase price of farmland near a city?
22. Why is land speculation not always profitable?
23. What is the effect of land speculation on the production of wealth?
24. What is the effect of land speculation on: a) rent as an amount?
b) wages and interest as an amount?
25. Does land speculation increase the cost of rental housing?
26. Does land speculation add a premium to the price of buying a house?
27. What is the limit to the speculative advance of rent?

Henry George Institute - Fundamental Economics - Answers Lesson 5

1. Name the changes which contribute to material progress. a) Increase of population. b) Improvements in the arts of production and exchange. c) Improvements in knowledge, education, government, police, manners and morals, so far as they increase the power of producing wealth. (B and C may be considered together since they have same effect.)

Effect of Increase of Population

2. Does the increase of population increase the productive power of labor?

Yes. 100 people working together can produce more than 100 times as much as one person working alone. Increased population makes possible division of labor, specialization and exchange.

3. What does increasing population tend to do to the margin of production?

Extend it to less potentially productive lands.

4. What is the effect upon rent and wages as proportions? To increase rent and lower wages as a portion of what's produced.

5. Can increasing population raise rent as a quantity (amount) without reducing wages and interest as quantities? Yes, increased population makes possible greater powers of cooperation and exchange. This increases production in densely populated areas, and to a lesser extent, increases productivity at the free land margin. Because of the free land's proximity to the more densely populated areas, the people on the free land can benefit by trading with the people on the more densely populated areas of land. So, to summarize, as the margin extends to less potentially productive land, rent increases while wages can remain the same or increase as a quantity, because of its proximity to areas with increasing population.

6. Is the increase of rent due to anything done by the landholder as such? No.

7. To what is the increase of rent primarily due? To increase of population.

8. How do inventions and improvements in the productive methods save labor?

They enable the same result to be secured with less labor, or a greater result with the same labor.

9. What is the effect of labor-saving improvements upon total production? To increase production. The labor saved by invention can be used to produce either more of the same thing or other things.

10. What is the effect of increased production upon the demand for land? To increase the demand for land; there is a more intensive use of superior lands; and there is a tendency to use additional lands.

11. How does the increased demand for land affect:

a) the margin of production? It lowers the margin to inferior land.

b) rent? b) It increases rent.

12. How do inventions counteract the fall of the margin? By increasing the productivity of all lands — the best and the poorest.

13. What is the effect of inventions upon: a) rent as a portion of production? A larger portion of the product will go to rent, because inventions increase productivity more on superior land.

b) wages and interest as portions of production? Therefore, a smaller portion goes to wages and interest, although a larger amount.

14. What is the effect of inventions upon: a) rent as a quantity? Rent generally goes up as a quantity. There are land-saving inventions, which could increase productivity more at the margin than on better lands. That would raise wages. However labor-saving inventions in total have increased productivity more on superior land. The difference between the increase in productivity of the free-land and any other land goes to the landowners as rent. Farm machinery increases productivity more on superior land than it does on the least fertile land in use. Mining equipment increases productivity more in the richest veins of ore than the poorest mines in use. Elevators and skyscraper technologies increase productivity more where population is dense.

b) What is the effect of inventions upon wages and interest as quantities? wages and interest tend to go up as quantities (although they go down as portions).

15. What is the effect of governmental expenditures on drainage and irrigation projects, roads, and bridges on rent? They increase the rent of land by aiding production more on superior lands where population is dense. Production includes transportation or exchange.

16. As material progress goes on and rent advances, why is some land held out of use? For speculation. Landholders expect further advances of rent and hold their land for a higher price in the future.

17. How does withholding land from use affect the margin of production? Holding land out of use forces the margin to a potentially less productive place than would otherwise be necessary.

18. Do the first settlers in a new area take only the land they can use? No, they often take more than they need, holding part of it for speculation.

19. Is all the land in any city fully utilized? No. Every city has low-rise buildings where high-rise buildings would be more economical, numerous empty buildings and vacant lots, or lots inadequately used (e.g. surface parking lots).

20. Need land be withheld from use completely to lower the margin? No; under use of land has the same affect as withholding it from use entirely, just to a lesser degree. Examples are partly empty buildings, surface parking lots, one, two, or three story buildings where a high-rise would be the most economic (highest & best) use.

21. How does land speculation affect the purchase price of farmland near a city? The selling price of farmland near cities is not based on the land's potential to grow things, but on it expected value as residential and commercial land in the future when the city expands to it.

22. Why is land speculation not always profitable? All land doesn't increase as fast in value as the return on other investments. Sometimes the taxes reduce the profits. When there is a recession, land values fall.

23. What is the effect of land speculation on the production of wealth? By forcing labor and capital to less potentially productive land it reduces the production of wealth.

24. What is the effect of land speculation on: a) rent as an amount? To increase rent as an amount. Although the premature extension of the margin lowers wages and interest, it does not raise rent by the same amount, because the idle land impedes cooperation and reduces production

b) wages and interest as an amount? To lower wages and interest as an amount.

25. Does land speculation increase the cost of rental housing? Land speculation creates a shortage and increases the rental value of the land (location), which is part of the cost of renting a house

26. Does land speculation add a premium to the price of buying a house? Yes. It increases the price (value) of the land under the house, because it extends the margin of production. and it adds a premium based on the expectation of future increases in value.

27. What is the limit to the speculative advance of rent? Once wages and interest have fallen to that point below which any further reduction would lower productivity more than wages and interest were lowered, rent would fall as well. That is the limit to the speculative advance of rent.

Lesson 6 — Depressions - recessions; Proposed Remedies

Based on Progress & Poverty, Book V, especially chapter 1; and Book VI, chapter 1 only.

This lesson explores the cyclic expansions and contractions of employment (recessions / depressions) within the economy; and six commonly proposed remedies for the elimination of poverty.

In concept, a depression is a severe form of what is now called a recession. Recessions and depressions are simply intensifications of the general problems of unemployment and low wages. In recent decades economists have defined a recession as a period of 6 months in which the Gross Domestic Product does not increase, and a depression as a period of 10 months in which the economy contracts. However, depressions and recessions are, in spite of this meter, periods of increased unemployment and falling wages.

There are several contributing factors that tend to intensify and expand the effects of a recession. Important among them is the interdependence of producers and consumers in which workers who become unemployed reduce their demand for the products of other people's labor. There is a consequent decline in credit, which has the same effect as reducing the supply of money. This dynamic has the opposite effect as inflation where the value of debts are diminished.

With deflation, those who owe money find that everything that is paid for (what they have to sell), including their labor, is worth less in terms of money, but what they owe in terms of real wealth is much more than it was before. In inflationary times prices go up. If corn sold for \$1 a bushel, the farmer who borrowed \$100, owed 100 bushels of corn. If an increase in the money supply bids up the price of corn to \$2 a bushel the farmer would then only owes 50 bushels of corn. Conversely, If corn sold for \$2 a bushel, the farmer who borrowed \$100, would owe 50 bushels of corn. If a recession causes the price of corn to fall to \$1 per bushel, now the farmer who owes \$100 now owes 100 bushels of corn. This intensifies the cycle by increasing the value upon which debts and obligations are based. The reduced volume of credit is also an intricate part of financing capital formation — buildings, machinery, and inventory.

Protective tariffs are sometimes enacted during recessions to counter unemployment, but by increasing the cost of imported products they lower purchasing power. However, no matter how much worse these factors make a recession, the basic cause in bringing about the recurring cycles of increased unemployment (depressions) is labor and capital's inaccessibility to land—caused by land speculation.

The effect of land speculation (un-used and under used land) is to extend the margin of production to less potentially productive opportunities (land), increasing rent and reducing wages and interest. It creates an impediment to cooperation; it separates people who would be more efficient in closer proximity; it increases the cost of the infrastructure (more roads, pipes and wires), and the time and distance of transportation—all of which reduces production.

Wages and interest fall as the productive potential of the free-land margin falls (is extended). However, even though all of what is left after wages and interest, goes to increasing rent, it does not increase by the amount that wages and interest fall. That is because land speculation has also diminished production.

To reiterate, workers who get laid off in one industry reduce their demand for the products of people in other industries and that reduces jobs in other industries.

Speculation In Commodities

Speculation in commodities raises the price until production is stimulated, more of the product is produced, and that tends to lower the price again. Thus, speculation in commodities tends to even out the fluctuations in the supply of goods in the open market.

The Selling Price Of Land

Unlike a mobile home that can be moved if the land rent becomes too expensive, those who invest in new buildings want to make sure that at no time can the land-rent be raised to the extent that it diminishes the return on the investment in the building. Even when the site has a greater potential in the future, it may not be cost effective to make the building bigger by adding stories on top. Therefore, although the land may have a higher rental value (income potential), the building owner could not afford to pay it. Borrowing money, buying the land, and paying interest on the loan, especially if only the interest is paid, is almost the same as fixing the rent once and for all. The payments do not go up when the rental value of the land does.

At this point, one might ask: how is a price placed on something that has no cost of production—cannot be reproduced? A parcel of land may offer an advantage and have an income, but how is that monthly or yearly income potential transformed into one payment once and for all?

Rental Value of Land	\$110
Current Taxes paid	\$10
Unearned Income	\$100
Current Rate of Interest	5%
(Fee Simple) Selling Price	\$2,000

Land, which has an income, but no cost of production, is equated to capital, which has an income and a cost of production. The exchange value of capital (buildings, machines, etc.), regardless of its income (interest) will equal its cost of reproduction. Therefore, a parcel of land that yields \$100 in income would exchange for the same value as an item of capital yielding \$100 in income. If interest were 5%, then the selling price of the capital and the land would both be \$2,000. The process is called capitalization. That is to say, at 5% interest, you would need \$2,000 worth of capital in order to receive \$100 in interest income.

Although the value of capital and interest do not generally increase with the march of progress, the potential value and income of most land does. The price of land is based on its expected income in the future. There is no way to calculate the selling value of land based on its current income. The person who has the greatest expectation about its income in the future, and the most money to out bid others, sets the selling value of land.

Speculation in Land reduces production. Prior to recessions and depressions, technologies advance, and the same amount of labor and capital tend to yield increasing results and increasing incomes from any particular parcel of land. In many cases, by reducing the price of products companies can so increase their volume of sales that it more than compensates for the lower profit per item and further increases their overall profits. That was the strategy of Henry Ford with his Model T. However, it often requires more land to expand production. During periods of great technological advance like the railroads of the nineteenth century or cars and trucks of the twentieth century the unearned income of land increases rapidly and creates the expectation of even greater increases. As businesses strive to expand, to increase their profits, the increased demand and expectations bid up the price of land. More and more money is offered for unused land that is good for factories and other production, but many landowners, in the expectation of even higher offers in the future, are encouraged not to sell. Although they get no income from the land, the value of their asset tends to increase. And, as long as it increases faster than the interest on a capital or monetary investment, the idle land is a more profitable asset. Suppose someone owned a piece of unused land, and she was offered 10% more than she was offered the year before. Even if the real estate tax took 2% of the land's value, she would have enjoyed an 8% return on her asset. If the current rate of interest was 6% without inflation, she would have enjoyed a higher return by holding the idle land. Lower rates of interest do not discourage land speculation.

Reverberations

The more productivity increases and the economy expands, the higher the price of land is bid up, and the more profitable holding it as an investment becomes. At some point as machines replace workers, businesses find it more profitable to lay off workers rather than expand production. In short, when new inventions reduce the labor necessary to produce a product, the natural tendency is not to lay off workers, but to lower prices, expand production, and increase profits through increased volume. But, when not enough land is offered for sale (too much land is held for speculation) the alternative is to lay off the workers.

In turn, the unemployed carpenters stop buying (reduce their demand for) new cars, and less cars are produced; the reduction in the demand for cars requires less people to make them; the unemployed auto makers stop buying refrigerators; the unemployed refrigerator makers stop buying new houses and so on. When there is no longer a demand for a product, production stops, and more people get laid off in a cycle of recession or depression. All production begins on the land. The main obstacle which prevents labor and capital from producing is land speculation.

As unemployment increases, reducing the demand for goods and services, not only do wages and interest fall, but so does the demand for land. The price that's being offered for land stops increasing and begins to fall. At that point capital at any rate of interest would be a better investment. Therefore, one could expect that land would be sold, capital would be bought, and the recession part of the cycle would be over. However, land speculators

like other investors consider short term versus long term. Consider the rapid increase in land values preceding a recession and the government's projections of economic recovery soon after a recession is confirmed—it is logical that many who can afford to, choose not to sell, but to wait for the end of the recession and the rise of land values again.

The selling price (value) of land, like anything else, is set by the buyers. The reason we have a recession is that too many landowners refuse to sell. In other words, it's not the price, but the refusal to sell that causes the recession. Once the recession develops and the economy stops expanding, the price that's being offered for land begins to fall. At that point It seems most of the owners of idle land are willing to sell for a price, but not enough are willing to sell for the highest price being offered. The more land that's held out of use the more people are unemployed. The main obstacle which prevents labor and capital from producing is land speculation—the refusal to sell unused, land so that labor and capital can engage in production.

Requisites To End A Recession / Depression.

In order for the price of land to be affordable, and workers to be re-employed, one of three things could happen: Wages and interest could fall; the results of labor and capital could increase; or the price that is accepted for land could fall. In the course of every recession the general rate of wages and interest fall (Even if the lowest paid workers are be getting nearly the same pay as before, the lowest paid jobs are often taken by more productive workers as the previously lowest paid workers become unemployed); every invention, innovation, and new discovery increases productivity and the rental income from land—narrowing the difference between the income from owning land and the previously unaffordable selling price of land; and finally, the price at which the owners of unused land are willing to sell also falls in every recession.

By some combination of lower wages and interest, greater productivity, and reduced land prices land becomes affordable. Large numbers of people go back to work and the recession is over. When productive activity increases to its pre-recession level, as the economy grows and expectations increase, the selling price of land is bid up again, and the seeds of the next recession are sown.

It should be noted that many recessions and depressions started after banks withdrew credit (1929, 2008). Because so much land is bought and developed with borrowed money, this suggests that it is the withdrawal of credit that causes recessions. However, the value of land is based on the highest amount bid. The flow of credit and low interest rates prior to a recession, do not discourage land speculation. They bid up the price of land. Lower interest rates make land affordable at higher prices. Lower interest rates make land speculation a better investment compared to capital.

After a recession, lower interest rates can make loan and mortgage payments more affordable. However, if, after credit was withdrawn, all the land was sold to the highest bidder, no matter how low the bid, land would be developed and no recession would follow. Remember, land has no cost of production. It has always been here.

Ameliorations of Recession / Depression

When companies buy a parcel of undeveloped land they not only have to acquire enough money to pay for the land, but they also have to acquire enough capital (buildings etc.), to maximize the potential of that land. If they borrow any part of the price of the land or the capital (buildings, machines, inventory) the rate of commercial interest on that loan will affect the profitability of their venture. Sometimes the Federal Reserve increases the supply of money and banks lend at lower interest rates. This lowers interest payments on buildings as well as the payments for land and makes the land more affordable. However, if the rate of interest is lowered before the land is purchased, it will prompt a higher price being offered for the land.

Sometimes one country invades another, as the Japanese invaded Manchuria or the Germans invaded Poland in WWII. This makes new resources available and puts their people back to work. In time of war governments sometimes require people to sell land for defense industries and the war effort. This gives labor and capital access to land. The problem of depressions and recessions is essentially no different from the general problem of poverty—just more unemployment and even lower wages.

Depression Caused By A Premature Extension Of The Margin

In Progress and Poverty Henry George describes the free land margin as having been just barely capable of providing an opportunity to make a subsistence living. Along with the railroad came a great expectation, a surge of land speculation, and a premature extension of margin to land that would not support subsistence. Unemployment and the depression of 1873 were the result. In time the railroads and other inventions increased production, the marginal land became productive, people had a place to live and work, and the depression was over. Today, for all intents and purposes, there is no free land margin. Therefore, it is necessary to understand recessions by way of the selling price of land.

Six Proposed Remedies For The Elimination Of Poverty

There are six measures frequently proposed for the elimination of poverty. They are economy in government; increased education and better habits of industry and thrift; labor unions; cooperation instead of competition between labor and capital; governmental direction and interference; and land redistribution.

Economy In Government would permit lower taxes. In the absence of Minimum Wage laws employers would soon find that workers who now paid less in taxes would continue to produce as much with lower pay. They would not get weak or sick, as they would be getting the same quantity of food clothing and shelter after taxes as before. As skilled workers began enjoying a greater reward for their superior productivity others would learn the same skills and knowledge. The supply of superior workers would increase until the competition brought their wages back to the previous after tax level. All the savings would go to landowners and other monopolists.

Increasing the general level of skill and education would be possible by either diverting government revenue from wasteful expenditures or by shifting the individual focus from

recreation to self improvement. The exceptional individual who increases her personal level of skill, and education, would enjoy a higher wage. However, an increase in the general level of skill, and education will have no such effect. Under the present circumstance without free land, wages tend to a bare minimum for the least productive workers—no matter how much they produce. Increasing the education and productivity of the least productive workers does not raise their pay. It simply raises the minimum level of productivity required for employment. When the vast majority of people could not read and write those who could, commanded measurably higher wages. Now that more than 99% of Americans can read and write those skills are basic requirements for even the lowest paying jobs. Even basic computer skills are sometimes required for Minimum Wage jobs. All higher wages are based on the lowest wages and the supply and demand for superior workers with each level of different skill and knowledge. The same thing would apply to better habits of industry and thrift.

Labor Unions have often succeeded in raising the wages of their members. Generally, it has been in industries where there was a monopoly like the railroads or the Telephone Company or, more recently, state and local governments. In mining, workers have gotten some of what would have otherwise gone to land rent. Sometimes there are partial monopolies like the auto and steel industries. In those cases, patents and tariffs against foreign competition, enable higher profits out of which union workers can enjoy higher wages.

Theoretically, a union of all American workers could affect the general level of wages, but without such a comprehensive organization, labor unions cannot raise the general level of wages because labor unions do not create a free-land margin of production.

Cooperative industrial organizations are sometimes proposed to raise the general level of wages. Risks between labor and capital would be shared and benefits would be pooled, as is the case with profit sharing companies. However, the contest is between labor and capital on one side and landowners on the other. Labor and capital compete for natural opportunities, which are in short supply. Food Cooperatives, for example, cooperate instead of competing. However, they rarely deliver products cheaper than the free market. If they did, the increased productivity would in time bid up the price of land, so they can not raise the general level of wages, as the benefits of cooperation would be taken by rent.

Sharecropping is a case of cooperation where the producers and landowners have eliminated much of the risk and the necessity of producers advancing the land rent, but it has in no way increased wages. Nor has it given workers more of what they produced.

Bureaucracy & Governmental Regulation (direction and interference) have helped to alleviated poverty, but bureaucracy and regulation cannot solve the problem of poverty. States run farms in impoverished countries have fed large numbers of poor people, but have been judged to be inefficient. Social security and Medicare payments have been a blessing for many poor people who were too old or otherwise unable to work. Minimum

Wage laws have kept wages from falling to that of the wage slave. However, none of these programs have created jobs or addressed the root cause of poverty.

Government Welfare Programs have re-distributed wealth, and ameliorated poverty, but they can not eliminate poverty—create jobs or raise wages, as they don't create a free-land opportunity.

Land Reform. A more general redistribution of land has helped many people in impoverished countries. Where it has been implemented it has increased the number of landowners and enhanced their lives. But, everyone did not receive land. Even if everyone did get land, unless everyone got land of equal value it would not be equitable. Agricultural land is not all equally fertile or equally close to markets. The value of residential, commercial, and industrial land is constantly changing as communities evolve. If land is divided into individual parcels it would have to be re-divided every time the population increased—and with every redivision of land there would need to be a compensation for the ownership of buildings and other improvements. It does not create a free-land margin, therefore it can't raise the general level of wages.

Student: _____

Henry George Institute - Fundamental Economics - Questions Lesson 6

Depressions and Recessions

1. a) What is a depression?

b) What is a recession?
2. What are some contributing factors in depressions and recessions?
3. What does George state is the basic cause of depressions?
4. What is the effect of land speculation on:
 - a) the margin of production?
 - b) rent?
 - c) wages and interest?
5. With increasing land speculation, what is the effect on the total amount of wealth produced?
6. How do workers getting laid off in one industry affect jobs in other industries?
7. In an open market, what is the effect on production of:
 - a) speculation in commodities?
 - b) speculation in land?
8. Do lower rates of interest discourage land speculation?
9. What happens to the production of a product when demand for it stops?
10. Where must all production begin?

The Basic Cause of Depressions

11. What is the main obstacle which prevents labor and capital from producing?
12. What three conditions contribute to restoring production after a period of recession or depression?
13. When productive activity increases to its pre-recession level, do land values start going up or down?
14. Is the problem of depressions and recessions essentially different from the general problem of poverty?

Proposed Remedies

15. Name six measures frequently proposed for the alleviation of poverty.
16. What effect would economy in government and reduced taxes have upon the general level of wages?
17. Increased skill and education raises an individual's level of wages. Can increasing the general level of skill and education raise the general level of wages? Explain.
18. When a labor union raises wages in a specific industry, does it effect the general level of wages?
19. Could cooperative industrial organizations raise the general level of wages?
20. Although governmental regulation may help to alleviate poverty, can bureaucracy and regulation solve the problem of poverty?
21. Has re-distribution by way of governmental welfare programs eliminated poverty?
22. Can a more general distribution of land raise the general level of wages?

Henry George Institute - Fundamental Economics - Answers Lesson 6

1. a) a) What is a depression? An increase in unemployment and a fall in wages. The Gross Domestic Product decreases.

b) What is a recession? The term “recession” usually refers to a milder form of depression, with the same symptoms in milder form.

2. What are some contributing factors in depressions and recessions? The growing complexity of production which makes each stoppage propagate itself; defective currencies; sharp alternations in the volume of credit; protective tariffs.

3. What does George state is the basic cause of depressions? Land speculation.

4. What is the effect of land speculation on: a) the margin of production? It lowers the margin of production. b) rent? It raises rent. c) wages and interest? It lowers wages and interest.

5. With increasing land speculation, what is the effect on the total amount of wealth produced? As land is held out of use, labor and capital are pushed to less potentially productive land, and production falls, or is far less than it would have been without speculation.

6. How do workers getting laid off in one industry affect jobs in other industries? The unemployed auto makers stop buying refrigerators, so they stop making as many of them and lay off some of their workers.

7. In an open market, what is the effect on production of: a) speculation in commodities? Speculation in commodities raises the price until production is stimulated, more is produced, and that tends to lower the price again. Thus, speculation in commodities aids production by evening out fluctuations in the supply of goods.

b) speculation in land? Land is fixed in quantity and speculation cannot increase the supply, so increased demand for land increases its price without aiding production in any way. Labor and capital are forced to make use of inferior lands, which decreases production.

8. Do lower rates of interest discourage land speculation? No. The lower the rate of interest, the less quickly the land must appreciate to be a better investment than capital.

9. What happens to production of a product when demand for it stops? When there is no longer demand for a product, production of it stops.
10. Where must all production begin? On the land.
11. What is the main obstacle which prevents labor and capital from producing? Inaccessibility of land. Too many owners refuse to sell or develop the land themselves putting labor and capital to work.
12. What three conditions contribute to restoring production after a period of recession or depression?(1) The willingness of labor and capital to accept smaller returns (2) New inventions, increased productive capacity. (3) Falling land values.
13. When productive activity increases to its pre-recession level, do land values start going up or down? When productive activity increases to its pre-recession level, land values start going up again?
14. Is the problem of depressions and recessions essentially different from the general problem of poverty? No. Depressions and recessions are merely intensifications of the general tendency for poverty to arise with material progress.
15. Name six measures frequently proposed for the alleviation of poverty. Government economy; education; labor unions; cooperation; governmental direction; land re-distribution.
16. What effect would economy in government and reduced taxes have upon the general level of wages? Wages would temporarily rise, as labor could keep the wages it now pays in taxes. This would mean increased demand and increased production. Rent would rise and eventually swallow the whole gain.
17. Increased skill and education raises an individual's level of wages. Can increasing the general level of skill and education raise the general level of wages? Explain. No, they cannot as long as there is no free land. They help in individual cases, as when a person works harder or increases their individual skill. However, as these qualities become widespread, they increase production, but they do not raise the general level of wages; they increase rent. For example, at one time reading and writing were special skills and paid higher wages than ordinary workmen received. As these skills became universal, they ceased to command higher wages. A modern example is computer skills.
18. When a labor union raises wages in a specific industry, does it effect the general level of wages? An increase in wages in any one industry does not affect the margin of production which determines the general level of wages.

19. Could cooperative industrial organizations raise the general level of wages? Like labor unions, cooperative enterprises can benefit workers in the particular industries involved, but do nothing to alter the general laws of distribution. When cooperation makes labor more efficient, the end result is to increase the demand for land.

20. Although governmental regulation may help to alleviate poverty, can bureaucracy and regulation solve the problem of poverty? George points out that although governmental regulation may temporarily alleviate poverty, it does not and cannot solve the problem of poverty. It tends to restrict production; requires costly bureaucracy and encourages evasion of regulations.

21. Has re-distribution by way of governmental welfare programs eliminated poverty? No.

22. Can a more general distribution of land raise the general level of wages? No, it would merely increase the number of landowners.

Lesson 7 — The Remedy; Its Justice

Based on Progress and Poverty Book VI, chapter 2 and Book VII, chapters 1-3

Henry George proposed a remedy. For the abolition of poverty, he wrote: “We must make land common property.” Common property in land means all people must have equal rights to the bounty of nature. This can be achieved by collecting the rent of land for the community—which would not deny individuals the right to keep what they produce.

Henry George asks, is it right? Is it practicable? Does it accord with social development? Does it harmonize with other reforms? He asserts that we must ask is it right, before we ask will it work, it must first pass the test of justice. He asks, do all people have an equal right to life? Certainly everyone believes they do. And, because everyone believes they do, it is accepted as a universal perception or principle. Then he asks, can human beings live without land? Obviously they can't. This is especially true when you consider that he is using the term land to mean all natural resources: the entire material universe, except people and their products.

To assert that some people have a greater claim to land is the same as saying that some people have a greater right to life. Therefore, there is no justification for absolute ownership of land by some to the exclusion of others.

If every time a person produced food, clothing or shelter it was taken away from them, their right to life would be taken away as well. If any part of what a person produces is taken away from them, then, to an equal extent their right to life is diminished. The rightful basis of property (ownership) is production. It is the right to the fruits (products) of one's own labor (exertion)—to enjoy, to use, to exchange, or give to others.

Private property in wealth, which is produced by labor, is completely justified by the principle that the product belongs to the producer. By contrast, land was not produced; it is a natural opportunity and cannot be justified as property.

If a person trades the product of her labor for the product of another person's labor, that which is received becomes rightful property because the producer willingly assigned it them. If a person trades the product of her labor for stolen goods it is not rightful property, because the producer did not assign it to her. Neither slaves nor land can rightfully be exchanged for products, because slaves are people and land is a natural opportunity—it was not produced.

The term real estate often leads to confusion in determining the rightful basis of property (ownership), because it includes buildings, which are produced, with land that is not. The term originally meant Regal or Royal Status. Land was assigned with conditions by the king. However, if the title to any parcel of land were traced back to each preceding owner, it would be found that the title originated with conquest or other force, or fraud. For example, the Mexican war involved conquest—force, and fraud.

Although priority of occupation has often given exclusive and perpetual legal rights under the law, priority of occupation has no moral standing in regard to the equal right of all other people to the use of land. A settler in an uninhabited region may settle where she pleases. She may take and monopolize as much of the common opportunity as she can use, but when other settlers arrive, her right is bounded by their equal right.

When there is no free land (without government intervention) wages of the least demanded workers tend to a bare subsistence. They are paid just enough to get food, clothing and shelter—just enough to keep them strong and working at maximum efficiency, no more than the cost of keeping slaves. In terms of exploitation (taking what other people produce), private property in land is more efficient than chattel slavery. The workers do not have to be bought or chained. If they get sick and die, the landlord loses no investment.

The Rent of Land

Once agriculture is adopted, permanent dwellings are built, and the family (or corporation) becomes the individual unit within society, land must be assigned with exclusive possession. No one would plant a crop or build a house much less a modern factory or office building if they couldn't lock the door and put up a fence. Title with exclusive possession and control of land are essential to modern production. At the same time, paying rent to the community based on the value of land that is held, satisfies the equal rights of all others to the same opportunity.

The Potential Rent of land is determined by the margin of production. It measures exactly the value of a superior opportunity. It measures the greater productivity that is possible on any particular parcel of land over and above that of the best land that is still free. In other words, it measures the advantage that some people have over others. It is a value created by the community; therefore, it belongs to the community.

The rent does not arise from anything the landowner (as a landowner) does. If she improves the land by cultivation or excavation the results are capital and the returns to those improvements are interest. Rent is the gain that results from a superior natural opportunity only.

Because rent represents a value resulting from the exclusive assignment of a natural opportunity and an advantage over others, the value of which is created by the conscious and subconscious cooperation of the community as a whole, it belongs to the community.

The private ownership of buildings, other improvements, and personal property (wealth) would not be affected by the community collection of rent. The entire rent of land can be taken without affecting any penalty on cultivation, excavation, the construction of buildings and other improvements, or personal wealth. That is because rent is a surplus in excess of the rewards to labor and capital.

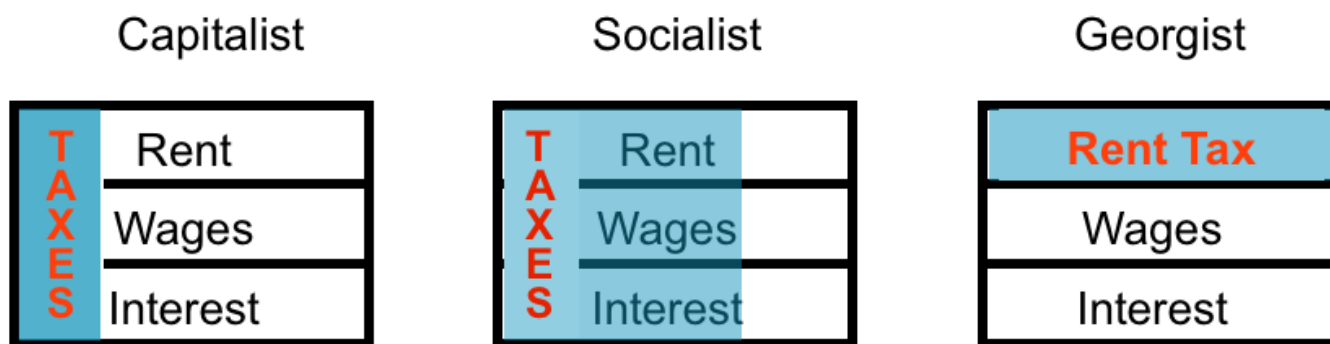
Henry George proposed a Single Tax on the rental value of land.

This proposal grants exclusive possession of land to individuals and corporations. They are at liberty to direct their own economic activities within the limits legislated to protect public health, safety, and the environment. However, because the rent of land measures the advantage of some people over others, sharing the rent of land with the community or society as a whole, satisfies all other people's equal right to the same parcel of land. In effect, land becomes a common property.

This is very different from state ownership of land and governmental direction in the production and distribution of wealth. In that case the government owns the land and capital; it hires the workers and directs them in making and assigning products or service. Factories in the former Soviet Union and East Germany were directed along those lines.

Land value taxation is very different from traditional land reform or land redistribution policies. Those policies rarely give everyone land, and the land they give is not the same value as every other plot of land. Even if all people got land of equal value, when the population increased the land would have to be re-divided. In the transition it would be difficult to protect the ownership of buildings and other improvements on the land that was being divided and reassigned.

Most ideologies (Left-wing, Right-wing, and Middle of the road proposals) prescribe that a small, medium, or large part of everything that's produced go to the community. This can be observed from country to country around the world. In the Georgist ideology, all wages and interest go to labor and capital respectively, and all rent goes to the community.



Privately Produced VS Socially Created values

In both the capitalist and socialist countries there is a recognition that some portion of all production is socially created. That is the reason and the justification for taxation and particularly the graduated income tax. In the case of socialist countries, the government owns the means of production (land and capital) to prevent private individuals and corporations from taking what is socially created.

Once there is no longer a free-land opportunity, wages tend to an amount below which production would fall more than wages were reduced, so the land rent would fall as well.

Therefore, if it weren't for laws that require higher wages (Minimum Wage etc), all taxes would be paid out of what would otherwise go to the owners of land and other monopolies. If the workers weren't compensated with higher pay, the lowest paid workers would go hungry and homeless, the skilled workers wouldn't have enough incentive to produce at higher levels, so productivity and the rent of land would fall.

Because the wages of the least productive workers are higher than subsistence (Legal Minimum Wage), taxes that fall on the lowest paid workers reduce their net wages by the amount of the taxes they pay. Payroll, Wage, import, tobacco, alcohol, and Sales taxes on necessities levied in some states, are the biggest taxes paid by Minimum Wage workers. So, the difference between the Legal Minimum and other required wages, and taxes paid by Minimum Wage workers, sets the floor of wages. All taxes that are levied only on higher paid workers must be compensated with still higher wages. Otherwise the incentive to learn the superior skill, accumulate the greater knowledge, work harder, and produce more would be lost. Therefore, most public revenue comes from what would otherwise go to the owners of land and other monopolies.

However, in the case of capitalist countries, and with the exception of the taxes now levied on the value of land, taxes impose no direct penalty for non-use or under-use of land—which is the cause of unemployment, low wages, a shortage of housing. It is also an impediment to cooperation.

In the case of socialist countries, the freedom and the incentive of individuals and corporations to find their most profitable and efficient place in the economy is lost when a bureaucracy tries to consciously direct production in order to satisfy the needs and desires of its people. So, in preventing exploitation, they give up freedom and efficiency.

The Single Tax program takes into account the multitude of variations in the value of advantages in the natural opportunities—from natural harbors that are good for trade, to fertility, to mineral deposits, to climate—and the fact that these advantages are increasing and decreasing in value relatively as material progress goes on. It takes into account the synergistic (the total is greater than the sum of the parts) increase in value that comes with denser and larger populations that permit greater sub-divisions of labor and economies of scale. It takes into account the infrastructure and public service that enables the greater concentration of people (including tall buildings) and the more efficient cooperation. And it creates an incentive to put each parcel to its most potentially productive use, which creates the mutual support that maximizes the aggregate production of the country.

The Single Tax would be a model of limited government. It would only collect those values that are socially created. That way, nothing would be taxed that was rightfully the property of (produced by) individuals or corporations.

Henry George Institute - Fundamental Economics - Questions Lesson 7

1. What is the remedy proposed by Henry George for the abolition of poverty?
2. a) What is “common property” in land?
b) How can this be achieved without denying individual rights to the products of labor?
3. a) What are the tests to which Henry George proposes to put his remedy?
b) Which test does he put first?
4. Do all people have an equal right to life?
5. Can human beings live without land?
6. Is there any justification for the absolute ownership of land by some to the exclusion of others?
7. What constitutes the rightful basis of property?
8. Is private property in wealth (the things produced by labor) justified by this principle?
9. Is absolute private property in land in accordance with the rightful basis of property?
10. Indicate which of the following would be morally justified as an exchange with the products of a person’s labor:
 - a) Products of another person’s labor
 - b) Stolen goods
 - c) Slaves
 - d) Land
11. How does the term “real estate” lead to confusion in determining the rightful basis of property?
12. a) What is the origin of land titles?
b) Give an examples.

13. Does priority of occupation give a person an exclusive and perpetual moral right to own land?

14. In what way does absolute private property in land compare with chattel slavery?

The Rent of Land

15. If land is justly common property, how can a person retain undisturbed possession and use of land and yet satisfy the equal rights of all others?

16. How does payment of rent to the community satisfy fully the equal rights of all?

17. Does rent arise from anything the landowner does as landowner?

18. To whom does rent justly belong? Why?

19. How would private ownership of buildings and other improvements and personal property (wealth) be affected by community collection of rent?

20. What is the difference between community collection of rent and state ownership of land?

21. Compare George's proposal with land re-distribution schemes currently advocated for impoverished countries.

22. Compare George's proposal with customary "left-wing", "right-wing" and "middle of the road" proposals.

Henry George Institute - Fundamental Economics - Answers Lesson 7

1. What is the remedy proposed by Henry George for the abolition of poverty?
“We must make land common property.”

2. a) What is “common property” in land? Equal rights of all to land—the bounty of nature.

b) How can this be achieved without denying individual rights to the products of labor on the land? By community collection of the rent of land.

3. a) What are the tests to which Henry George proposes to put his remedy? It must be just. It must work (be practicable; accord with social development; harmonize with other reforms).

b) Which test does he put first? The test of justice. “Is it right?” must be asked before “Will it work?”

4. Do all people have an equal right to life? Yes. If in doubt, ask someone if they have a right to live.

5. Can human beings live without land? No, it is the storehouse from which human needs must be supplied.

6. Is there any justification for the absolute ownership of land by some to the exclusion of others? No. An equal right to life implies an equal right to the use of land, which is necessary to life.

7. What constitutes the rightful basis of property? The right to the fruits (results) of one’s own exertion, to enjoy, to use, to exchange or to give.

8. Is private property in wealth (the things produced by labor) justified by this principle? Yes, a person can claim a just and clear title to that part of wealth which is due to his or her own exertions.

9. Is absolute private property in land in accordance with the rightful basis of property? No, land is not the product of labor.

10. a) 10. Indicate which of the following would be morally justified as an exchange with the products of a person’s labor:

a) Products of another person’s labor? Yes.

b) Stolen goods? No.

c) Slaves? No.

d) Land? No.

11. How does the term “real estate” lead to confusion in determining the rightful basis of property? By failing to distinguish between a building (wealth) which may be rightfully owned by an individual, and the lot on which it stands (land) which is not rightfully private property.

12. a) What is the origin of land titles? Conquest or other force and fraud.

b) Give an examples. The settlement of North and South America was accompanied by the cheating and massacring of the native inhabitants and by wars of the European powers with one another for the possession of the land.

13. Does priority of occupation give a person an exclusive and perpetual moral right to own land? No. A first settler to a new country may settle where she pleases and take so much of the common property as she can use, but when other settlers arrive, her right is bounded by their rights.

14. In what way does absolute private property in land compare with chattel slavery? Owning the land on which another person must live gives as much power to the owner over that person as owning him bodily.

15. If land is justly common property, how can a person retain undisturbed possession and use of land and yet satisfy the equal rights of all others? By paying its rent to the community.

16. How does payment of rent to the community satisfy fully the equal rights of all? Rent is determined by the margin of production. It measures exactly the difference between the advantages of a particular piece of land and land which may be had freely by any member of the community.

17. Does rent arise from anything the landowner does as landowner? No. A landowner who improves land does so as laborer and capitalist. The term landowner implies merely owning land and nothing else.

18. To whom does rent justly belong? To the community. Why? because rent represents a value created by the community.

19. How would private ownership of buildings and other improvements and personal property (wealth) be affected by community collection of rent? Everyone, including the present landowners, would retain ownership of improvements and personal property.

20. What is the difference between community collection of rent and state ownership of land? Community collection of rent enables the private possession and use of land to continue as now. State (government) ownership of land implies state control. The government decides what should be produced on the land.

21. Compare George's proposal with land re-distribution schemes currently advocated for impoverished countries. George's proposal enables everyone to decide whether to be a landholder and how much land to hold, provided the full rental value of the land is paid to the community. Most currently proposed land reforms aim at elevating poverty by redistributing land. There is no plan to give everyone in the country an equal share of land value, and no system for redistributing land as the population increases. It just increases the number of landowners.

22. Compare George's proposal with customary "left-wing", "right-wing" and "middle of the road" proposals. "Left-wingers" generally aim for more of the product to be in public hands. "Right-wingers" aim for more of the product in private hands. "Middle-of-the-roaders" aim for a "balanced system" between private and public ownership. None of them make a clear distinction between wealth that is produced by individuals and corporations, and wealth that is socially created.

Lesson 8 — The Application of the Remedy

Based on Progress and Poverty, Book VIII

Ownership of Land

Absolute private ownership of land is not necessary to encourage cultivation, excavation, or the erection of buildings. The only security a person needs is secure possession in the product of their labor to warrant building upon or cultivating land.

When land is treated as absolute property the unconditional ownership often stands in the way of its being used to its greatest economic potential (highest and best use). The owner may prevent others from using what he will not or cannot use himself. If land were treated as common property it would be used as soon as it was needed. There would be no incentive to prevent others from using land that was not currently in use.

In working out a method for treating land as common property the community could purchase land from those who legally own it, but it would be unjust for the community to purchase what in morality it already owns. The community could confiscate land from those who legally own it. However, in confiscating land it would be extremely difficult not to violate the individual right of people to their houses and other improvements upon the land, which must be safeguarded. It is not necessary to confiscate land. Treating land as common property requires only that we collect for the community the rental value of land—i.e. the Potential Rent.

The practical method proposed by Henry George for treating land as common property is to appropriate the potential rent by taxation. Land titles would be retained and undisturbed. We already collect some of the rent by way of the real estate tax. We need only exempt buildings and tax the full rental value of land. The real estate tax is presently levied on selling values, so assessments would have to be changed to rental values.

All other taxes would be abolished, because wages and interest belong rightfully to labor and the owners of capital, who produced it or had it assigned to them by its producers. Under the current system of taxing income and wealth, revenue is largely collected out of what would otherwise go to the owners of land as an unearned income. However, those taxes do not discourage people from holding unused or under used land.

In 1776, writing in The Wealth of Nations, Adam Smith formulated four canons of taxation: 1. That it bear as lightly as possible upon production—so as least to check the increase of the general fund from which taxes must be paid and the community maintained. 2. That it be easily and cheaply collected, and fall as directly as may be upon the ultimate payers—so as to take from the people as little as possible in addition to what it yields the government. 3. That it be certain—so as to give the least opportunity for tyranny or corruption on the part of officials, and the least temptation to lawbreaking and evasion on the part of the taxpayers. 4. That it bear equally—so as to give no citizen an advantage or put any at a disadvantage, as compared with others.

Henry George interpreted “That it bear equally” to mean equal to the value of the benefits received by the taxpayer. As such, only a tax on the rental value of land (potential rent) satisfies all four of these canons.

The sales tax falls on production by increasing the cost of production—getting a natural resource to the consumer in the desired form. Without free land, a tax on higher wages reduces the rewards for greater skill and knowledge. Higher wages are paid to compensate. Without free land, a tax on interest reduces the incentive to loan capital, so higher interest is needed to maintain the incentive. The income tax that collects land rent does not fall on production, because it does not increase the cost of production. Land is not produced.

Although the primary cause of unemployment, low wages, and a shortage of housing is land speculation and the idle and under use of land that results, there are locations where the total production is only enough to pay wages and interest. Because those locations do not yield enough to also pay taxes, no production takes place on them, and no one can live or work there. This would include some of the worst urban slums and the poorer mineral land. In densely populated commercial areas of cities, building taxes, which increase with each floor, reduce the most economic height of buildings. Therefore, it reduces the number of jobs and units of housing.

Taxes on imports often alter the incentives and divert labor and capital from their most efficient endeavor to one that is artificially more profitable. They fall on production and reduce the total production of a country.

The public collection of rent would increase production. By eliminating speculation, many workers and a large portion of capital would migrate to more productive land that was previously held idle or under-used for speculation. That would increase their output. By eliminating speculation there would be greater economy in transportation — less vacant land to carry things past and a larger number of producers with mutual support in the same area. It would make possible smaller divisions of labor and larger economies of scale. The same amount of roads, pipes, and wires and the same amount of fire and police protection would link a larger number of producers and economize the cost of government. Because everyone that was willing and able would be working (full employment) total production would further increase.

A tax on land values can be easily and cheaply collected, for land can not be hidden, and its value can be determined by analyzing the potential income when put to its most efficient (highest and best) use.

While A tax on commodities, like a sales tax, adds to their price (The same as increasing the cost of production), a tax on the value of land does not add to the value of commodities or anythings that is made or exchanged upon the land. A tax on the value of land only takes what would otherwise go to the owner of the land in the absence of the tax.

In a situation where the user and the owner of land are different people like a tenant farmer or someone who leases an apartment or office, a tax on the value of land does not increase the value of the land. The tax cannot be passed from the owner to the user. The rental value of land simply measures the total of all the advantages that attach to a parcel of land.

Because society collects a value equal to those advantages does not increase the value of those advantages. Land, unlike products, has no cost of production. Land has a monopoly value, which the user pays or goes without. Therefore, a tax on the rental value of land cannot be passed on to the user of land.

A tax on the value of land can be collected cheaply with the greatest certainty. Land cannot be moved or concealed. If the tax is not paid the land can be reassigned. There is no need to monitor business or pursue taxpayers.

While taxing wages violates the right of the producer to the product of her labor, taxing the potential rent conforms to justice. It is simply a charge for the monopoly or exclusive possession of a common asset. Taxing the rental value of land is simply collecting for the community a value created by the community.

The rental value of land can be separated from the value of improvements. It requires an understanding of the type and size of buildings and other improvements that will maximize the economic potential of a site (land). It may require professional training, but developers do it every day. Next, the current rate of interest must be applied to the value of the building and other improvements (what they cost to build). To that must be added the total cost of management and maintenance fees, depreciation, and risk factors. By subtracting this total from the amount that people are willing to pay for the use of the building and other improvements at a given location, the rental value of urban land is determined. Farmland is almost as simple as leasing it to the highest bidder for one year.

The only thing required for public acceptance of the common ownership of land by way of a tax on its rental value is that it be widely understood. Legislators and political executives from mayors to the president generally follow their constituents.

Student: _____

Henry George Institute - Fundamental Economics - Questions Lesson 8

Ownership and Use of Land

1. What security does a person require to warrant building upon or cultivating land?
2. Is absolute private ownership of land necessary to encourage the erection of buildings and the cultivation of land?
3. How does the treatment of land as absolute private property stand in the way of its highest and best use?
4. If land were treated as common property when would it be used?
5. In working out a method for treating land as common property what right must be safeguarded?
6. Is it necessary to confiscate land?
7. What is the practical method proposed by George for treating land as common property?
8. How would land titles be affected by this proposal?
9. What machinery already exists for the public collection of rent?
10. What does George's proposal call for with respect to other taxes?

11. What are the standards, or canons, to which taxation should conform?
12. Name some types of taxes which fall upon production.
13. How do such taxes affect production?
14. What effect would the public collection of rent have upon production?
15. Can a tax on land values be easily and cheaply collected?
16. How does the taxation of commodities affect their price?
17. Does a tax on rent enable the owner to pass it on to the user of land in the form of a higher rent?
18. Does a tax on land values add to the price of commodities produced upon the land?
19. What tax can be collected with the greatest certainty?
20. Which conforms more closely with justice: Taxing wages or taxing rent?
21. Can we separate the value of land from the value of improvements?
22. If a tax on land values is the best method of raising revenue, why hasn't it been called for by the voters?

Henry George Institute - Fundamental Economics - Answers Lesson 8

Ownership and Use of Land

1. What security does a person require to warrant building upon or cultivating land? The only security a person needs is secure possession in the product of their labor to warrant building upon or cultivating land.
2. Is absolute private ownership of land necessary to encourage the erection of buildings and the cultivation of land? No. It is only necessary to insure that the return on the improvements is forthcoming. There are examples of leased land with building owned by the tenants. Leased land for agriculture prevails everywhere to a large extent.
3. How does the treatment of land as absolute private property stand in the way of its highest and best use? The individual owner is permitted to prevent others from using what he cannot or will not use himself.
4. If land were treated as common property when would it be used? As soon as there was a need for it.
5. In working out a method for treating land as common property what right must be safeguarded? The private right to improvements.
6. Is it necessary to confiscate land? No. It is merely necessary to confiscate rent. ("Confiscate" from the Latin: "con", together, and "fiscus", purse; in other words the public treasury. In its original meaning, "to confiscate" simply meant to take into the public treasury.
7. What is the practical method proposed by George for treating land as common property? To appropriate rent by taxation.
8. How would land titles be affected by this proposal? They would remain undisturbed.
9. What machinery already exists for the public collection of rent? Taxation. We already take some of the Potential Rent through the real-estate tax. We need merely take all (or most) of it. George suggests that landowners might be left a small percentage of the rent to keep the government from being involved in re-assigning titles of undeveloped land.
10. What does George's proposal call for with respect to other taxes? To abolish them. Appropriation of rent would thus be substituted for all taxes now imposed on labor and capital.

11. What are Adam Smith's standards, or canons, to which taxation should conform? Taxation should: 1) bear as lightly as possible upon production; 2) be easily and cheaply collected and fall as directly as possible upon the ultimate payers; 3) be certain; 4) bear equally so as to give no individual an advantage.

12. Name some types of taxes which fall upon production. Taxes on sales, tariffs (import taxes) the real-estate tax on high-rise buildings.

13. How do such taxes affect production? They increase the cost of production, raise prices and force consumers to buy less.

14. What effect would the public collection of rent have upon production? It would not be a burden upon production. It would stimulate the most economical use of privately held land. The full public collection of rent would increase overall production by stimulating the full use of all valuable privately held land—increasing the results of labor and capital.

15. Can a tax on land values be easily and cheaply collected? Yes. Land cannot be hidden. Its value can be calculated. The machinery used to collect part of the rent could be used to collect more or all without any added expense.

16. How does the taxation of commodities affect their price? The taxation of labor products increases their price by increasing the cost of production.

17. Does a tax on rent enable the owner to pass it on to the user of land in the form of a higher rent? No. Since land is not produced by labor, taxes upon rent cannot lessen the supply and thus raise rents. The owner cannot collect more rent, because rent is determined by the margin of production. Thus an effort by the landowner to shift the tax to the tenant by raising rent would make the rent higher than the land was worth, and the tenant would move. In the absence of free land, adding the land value tax would not give the tenants more money to pay higher rents, so they would not pay them.

18. Does a tax on land values add to the price of commodities produced upon the land? No. It does not increase the rent of land; it does not reduce the supply of land; it can not reduce the supply of commodities; therefore it cannot increase the price of commodities. The price of commodities is set by competition of producers, and tends to the same level regardless of how much of the rent of is taken by the government, as opposed to private landholders.

19. What tax can be collected with the greatest certainty? The tax on land values. Land cannot be moved or concealed, and its value can be determined.

20. Which conforms more closely with justice: Taxing wages or taxing rent? Taxing rent. A tax on wages takes the rightful property of the laborer, the results of

individual exertion. Rent is not produced by the individual. It is produced by society and therefore justly belongs to society.

21. Can we separate the value of land from the value of improvements? Yes. Assessors habitually estimate these two values separately. If buildings are destroyed, land value remains. And, land values and building values often change in different directions, such as when a dilapidated building loses value while a desirable site appreciates.

22. If a tax on land values is the best method of raising revenue, why hasn't it been called for by the voters? A tax equal to the rental value of land hasn't been called for by the voters because the majority of them do not understand how it would help them.

Lesson 9 — Effects of the Remedy

Based on Progress and Poverty Book IX

Effects upon Production and Distribution

If taxes on wages and interest were abolished, it would reduce the cost of production; it would be the as though productivity were increased by the amount of the tax.

If the rental value of land (land values) were fully taxed it would eliminate speculation; many workers and large amounts of capital would migrate to more productive land that was previously held idle or under used for speculation. That would increase their output. By eliminating speculation there would be greater economy in transportation—less vacant land to carry things past and a larger number of producers with mutual support in the same area. It would mean smaller divisions of labor and larger economies of scale. The same amount of roads, pipes, and wires and the same amount of fire and police protection would link a larger number of producers and economize the cost of government. Because everyone who was willing and able would be working (full employment), total production would increase.

Taxing the rental value of land would stop land speculation and recreate the free land margin, which is necessary (must happen) to raise the general level of wages. Under these circumstances eliminating taxes on wages and interest would create a greater incentive to work and invest in capital. As the margin of production offered superior land without the payment of rent, wages and interest would rise. As taxes were removed from wages and interest they would increase by the same amount. The opening of better natural opportunities would reduce the competition of laborers and increase the competition of employers to hire workers, increasing wages.

There are two forces that would affect aggregate rent. As land speculation was no longer profitable the margin would recede. This would raise wages and interest and lower rent. However, the increase in productivity from cooperation due to greater and denser populations enabled by the infrastructure and public service, would increase rents where population is dense (urban rents). Most inventions and innovations would continue to increase productivity proportionately more where population is more dense (in urban areas), and therefore, increase particular rents.

Wages and interest would increase in general. Rent would increase on particular lands and would benefit the community by providing sufficient revenue to build, expand, and maintain the infrastructure and public services, which enables denser populations. The rest of the rent would enhance the common fund in which all people would benefit from social programs.

The selling price of land is often a large part of buying a house or starting a business. It is based on the unearned income that attaches to a parcel of land (net income). To that is added a speculative component incorporating future expectations of income.

Rental Value of Land	110
Current Taxes paid	\$10
Unearned Income	\$100
Current Rate of Interest	4%
(Fee Simple) Selling Price	\$2,500

Rental Value of Land	\$110
Current Taxes paid	\$110
Unearned Income	\$0
Current Rate of Interest	4%
(Fee Simple) Selling Price	\$0

When the rental value of land is taken in taxation, no income remains from the ownership of land. Therefore, there is no selling price. In the left model above, there is \$100 in income that goes to the landholder. \$100 is 4% of \$2,500. Therefore, \$2,500 plus a speculative component will be the selling price. In the right model above, there is no income that goes to the landholder. It is taken in land value taxes. Therefore, no one would be willing to pay for the title to land. The selling price of land would be zero. The tax would be the same whether the land was used or not. As soon as people stopped buying land no one would hold land they were not fully using, i.e. land speculation would stop. It would not be necessary to pay large sums in advance or to incur mortgages in order to obtain land. Not having to pay the speculative price for the use of land would make it much easier to acquire.

The opening of better natural opportunities would provide an alternate place of employment; it would increase the competition of employers to hire labor, and lessen the competition of workers to find employment. As the rent would have to be paid, the holders of valuable land would be under increased pressure to hire people and put the land to full use—offering higher wages in the process.

As land speculation ceased, labor and capital would have migrated to the best previously unused land. No one would hold land they weren't using, because they would know that as soon as it attained a value a payment would be due. The value of land arises when two people want the same piece at the same time. A free land alternative would give labor and capital far more than enough reward to maximize production. With higher wages each worker would have the incentive and the time and money to go to school and otherwise increase their individual level of productivity.

When taxes are collected on the rental value of land all additions to material progress increase wages and interest. Technology and the infrastructure increase production on the best land and the free land. Rent, which belongs to everyone, increases on superior land because technology and the infrastructure increase production disproportionately more where population is dense. Should society choose to it could spend some of the rent on national healthcare, medical research, Social Security and the development of non-polluting, non-carbon emitting, inexhaustible energy. It could also choose to grant a cash dividend to all residents.

With land value taxation, further advances in material progress (inventions and the increase in population etc), all classes—workers, capitalists, and landholders, would share equally in the increasing rents. With full employment and rising wages, even the previous

landowning class would benefit from living in a healthier society with less crime and disease.

The value of agricultural land is relatively low compared to that of town and city land. Therefore, if only the rental value of land were taxed the working farmer who owned his farm would pay less than he pays now in taxes. The tenant farmer would pay less because the rental value of agricultural land would fall as speculation stopped. The prospective farmer would find it easier to acquire a farm because he would only have to buy the improvements, and the rental value of the land would be less than before. The absentee farm owner would gain nothing from his title to land. Only if he also owned buildings and machinery would he then receive an income, and it would be from his capital for which he would receive interest. Both interest and wages would be higher than before, because of the Free-land margin.

The value of residential land is higher than agricultural land, but relatively low compared to industrial and commercial land. Therefore, if only the rental value of land was taxed, the majority of homeowners would pay less, depending on the location, than they pay now in total taxation. When a house is sold, it is only the building and other improvements that are paid for. The same thing goes for buying another house. The land is transferred without a purchase price, because the rental value of the land will have to be paid by the new owner each year. There are no other taxes.

Partial application

If only one city were to shift all their municipal taxes to the rental value of land, but the state and federal government retained their current tax policies, it would give measurable encouragement to put previously unused and under used land to fuller use within that city. It would result in many more and bigger businesses with jobs and units of housing. In distressed areas it would eliminate the burden of the tax on buildings, and in many cases make new and rehabilitated housing profitable. However, it would increase the income and desirability of the land throughout the city more than the increase in tax revenue.

Therefore, land prices would go up. In other words, when each parcel of land was put to its highest and best use, its income would go up more than the taxes, so the price of land would go up. Only when the private income from land is reduced does the selling price of land go down. Only when the full rental value of land is taken in taxes does the selling price of land go to zero.

Even if the landowners get most of the benefit from partial applications, it is better to have more jobs and more housing, less unemployment and homelessness with each step toward the ultimate goal of collecting the full rental value of all privately owned land throughout the country.

With the full application of The Single Tax (collecting the full rental value of land) there would be a re-creation of the free-land margin, which must happen in order to raise the general level of wages and interest.

The highest land values and therefore the largest revenues from a tax on the rental value of land (Potential rent) would be derived from commercial, industrial, and mineral lands like those with oil, and gold.

With speculation removed, people in sparsely settled areas could move closer together and closer to the centers of population, because they would not be separated by idle land held for speculation. People who are crowded in cities would have more living room, because buildings would be much taller, which would increase the supply of floor space and make larger apartments more affordable.

If the rental value of land were taken by taxation it would vastly simplify and reduce what many refer to as Big Government. It would eliminate numerous tax agencies and grossly complicated tax legislation. An environment which offered greater opportunities to all would tend to change society. The fundamental problems of subsistence wages and unemployment would be solved. Recurring cycles of recession would be ended.

Governments would no longer have to manipulate the economy and administer a large safety net for anyone who was willing and able to work. Taxes would be limited to the rental value of land. The primary functions of government would be to collect and spend the rent for the wellbeing of the people. Some of the rent would go for infrastructure and public service, without which, the rental value of urban land would fall. Some of the rent would go for national defense. Some of the rent could go for research into safe energy and medical cures, and the rest could go to the residents in the form of benefits like medical care and social security or even a cash dividend—all decided by the democratic process.

Henry George regarded the desire for approbation (social approval or admiration) to be even greater than self interest. This sympathetic nature, he believed, leads people to act for the sake of their fellow citizens or a noble cause.

Without the fear of want, there would be no worship of wealth. People would no longer exploit and oppress others to amass a fortune for the sake of the admiration it commands. Without the fear of unemployment or the deprecation of low wages there is every expectation that in addition to material satisfaction people would not tend to idleness, but also strive for intellectual and moral achievements. The greatest waste of society today is the mental power wasted by conditions that permit so few to develop to their full potential. With a society that offered an abundance of opportunity, the moral, intellectual and cultural life of society would tend toward constant improvement.

Henry George Institute - Fundamental Economics - Questions Lesson 9

Effects Upon Production and Distribution

1. What would be the effect on production if:
 - a) taxes on wages and interest were abolished?
 - b) land values were fully taxed?
2. How would the returns to labor and capital be affected by:
 - a) the abolition of taxes on wages and interest?
 - b) the full taxation of land values?
3. Under the full taxation of land values, what two forces would affect aggregate rent?
4. How would an increase of aggregate rent benefit the community under land value taxation?
5. If the full rental value of land were taken in taxation, what would happen to:
 - a) the selling price of land?
 - b) land speculation?
6. If taxes were placed only on land values, would a given piece of land be taxed the same whether it were used or idle?
7. Under land value taxation, would it be necessary to pay large sums in advance, or to incur mortgages, in order to obtain land?
8. What effect would the opening of better natural opportunities have on competition among laborers and on wages?
9. How would increased wages affect labor's individual level of productivity.?
10. How would further advances in material progress (inventions, increase of population, etc.) affect all classes under land value taxation?
11. How do the values of agricultural land compare with the values of town and city land of equal area?

12. If only land values were taxed, what would be the effect on:

a) the working farmer who owns a farm?

b) the prospective farmer seeking a farm to buy?

c) the absentee farm owner?

13. Under the full taxation of land values, how would the homeowner fare:

a) in the taxes on house and lot?

b) in selling house and lot?

c) in buying a house and a lot?

14. How could a partial application of land value taxation in one city increase land prices?

15. What must happen in order to raise the general levels of wages and interest?

16. With speculation in land removed, what would be the effect on the distribution of population?

17. How would a single tax on land values affect the complexity and size of government?

18. What would be the functions of government under land value taxation?

19. What does Henry George regard as a motive of human action even stronger than self interest?

20. If involuntary poverty were abolished, would people tend to idleness?

21. What is the greatest waste of society today?

22. How would an environment which offered greater opportunities to all tend to change society?

Effects Upon Production and Distribution

1. a) 1. What would be the effect on production if: a) taxes on wages and interest were abolished? With people no longer taxed for their energy, industry, skill and thrift, there would be greater incentive to produce.

b) land values were fully taxed? Better natural opportunities would be accessible to labor, thus increasing production.

2. How would the returns to labor and capital be affected by: a) the abolition of taxes on wages and interest? Freed of taxation, they could keep their full wages and interest (all that they could have produced at the margin of production).

b) the full taxation of land values? Having access to better natural opportunities at the margin of production (Free Land), their returns would be greater on all land.

3. Under the full taxation of land values, what two forces would affect aggregate rent? The elimination of land speculation would lower all land rent as it offered higher quality land free at the margin of production. And at the same time, the increase in urban populations would increase productivity and the rental value of land where population is dense. So would many inventions, because they increase productivity more where population is dense, and the greater productivity increases land rent.

4. How would an increase of aggregate rent benefit the community under land value taxation? It would increase the common fund in which all would share.

5. If the full rental value of land were taken in taxation, what would happen to:

a) the selling price of land? It would fall to zero.

b) land speculation? Land speculation would disappear as there would be no profit in it.

6. If taxes were placed only on land values, would a given piece of land be taxed the same whether it were used or idle? Yes. The tax would be based on the land's rental value. No matter how fully it were built upon or improved, the owner would pay no more for it than if it were idle. This would encourage the best use of land.

7. Under land value taxation, would it be necessary to pay large sums in advance, or to incur mortgages, in order to obtain land? No. Land would be much easier to obtain than today. The selling price would fall to zero or near zero. The main requirement in acquiring and keeping a piece of land would be to pay the rent tax.

8. What effect would the opening of better natural opportunities have on competition among laborers and on wages? The demand by employers for labor would increase and at the same time laborers could more readily become their own

employers. With less competition among laborers and increased production, wages would rise as the productive potential of the margin rose.

9. How would increased wages affect labor's individual level of productivity?

Increased wages would mean less hours would need to be worked. Workers would be less anxious or tired and stressed out from long hours, and they would have the leisure time to learn greater skills and accumulate more knowledge—all of which would result in greater productivity.

10. How would further advances in material progress (inventions, increase of population, etc.) affect all classes under land value taxation? As labor and capital became more productive with material progress, there would be further increases in wages and interest. As rent increased, all would share in its benefits. Landowners themselves would benefit by living in a healthier society with less crime and disease.

11. How do the values of agricultural land compare with the values of town and city land of equal area? Agricultural land values are small compared to the values of town or city land of equal area.

12. If only land values were taxed, what would be the effect on: a) the working farmer who owns a farm? There would be less to pay in taxes, both direct and indirect.

b) the prospective farmer seeking a farm to buy? The prospective farmer would find much better land available at cheaper rents than today.

c) the absentee farm owner? There would no longer be any incentive to hold land for speculation. The absentee owner would still gain income from buildings and other improvements, but not from the land itself.

13. Under the full taxation of land values, how would the homeowner fare: a) in the taxes on house and lot? There would be no tax on the house. Land value tax would depend on the desirability of the location

b) in selling a house and lot? The value of the lot would be zero, but the value of the house would remain unaffected.

c) in buying a house and a lot? The cost of the lot would be zero. Only the house would be purchased. That would result in a smaller mortgage.

14. How could a partial application of land value taxation in one city increase land prices?

If only one city were to shift all their municipal taxes to the rental value of land, but the state and federal government retained their current tax policies, it would give measurable encouragement to put previously unused and under used land to fuller use within that city. It would result in many more and bigger businesses with jobs and units of housing. In distressed areas it would eliminate the burden of the tax on buildings, and in many cases, make new and rehabilitated housing profitable. However, it would increase the income and

desirability of the land throughout the city more than the increase in tax revenue. Therefore, land prices would go up. In other words, when each parcel of land was put to its highest and best use, its income would go up more than the taxes, so the price of land would go up. Only when the private income from land is reduced does the selling price of land go down. Only when the full rental value of land is taken in taxes does the selling price of land go to zero.

15. What must happen in order to raise the general levels of wages and interest? Land speculation must be reduced enough to create free land of better quality.

16. With speculation in land removed, what would be the effect on the distribution of population? People in sparsely settled areas could move closer together and the centers of population; unused and under used land would be developed in cities—buildings would be higher, the supply of housing would increase and larger apartments would become more affordable.

17. How would a single tax on land values affect the complexity and size of government? The enormous tax and welfare bureaucracies would be a small fraction of what they are. Monetary policy would not be needed to create jobs.

18. What would be the functions of government under land value taxation? The collection of land value taxes; the construction and maintenance of the infrastructure and public services; the preservation of law and order; the administration of justice; provision for the sick and destitute, and in general, the rent spent in the interest of the people.

19. What does Henry George regard as a motive of human action even stronger than self interest? The desire for approbation. The sympathetic desire of people which leads them to act for the sake of their fellow citizens, or for a noble cause.

20. If involuntary poverty were abolished, would people tend to idleness? No. Human desires are unlimited. People would not only strive for material betterment, but for intellectual and moral achievements.

21. What is the greatest waste of society today? The waste of mental power, caused by conditions that permit so few to develop their full potential.

22. How would an environment which offered greater opportunities to all tend to change society? Without the fear of want, there would no longer be the worship of wealth. People would no longer be inclined to exploit and oppress others in accumulating fortunes beyond any reasonable expectation of consumption. This previously exploitive energy would be directed to cooperation with mutual benefits for all.

Lesson 10 — The Law of Human Progress

Based on Progress and Poverty, Book X and The Conclusion - The Law of Human Progress: Different levels of civilization are due less to differences that inhere in individuals and more to differences in society. Traditions, beliefs, customs, and laws have the greatest affect on the different levels of civilization.

The law of Human Progress must explain why past civilizations arose and decayed. It must explain which social adjustments tend to advance and which to retard civilization. The incentive to progress is the desire to gratify our physical, mental, and social wants. The amount of mental power devoted to progress is that which is left after the non-progressive pursuits of maintenance and conflict. To utilize this mental power fully the first essential of progress is “Association”. As people associate in communities the division of labor becomes possible. This increases productivity and frees mental power for higher pursuits.

The second essential of progress is “Equality”—a condition of equality, freedom, and justice. An observance of the equality of human rights will lessen the wasteful expenditure of mental power in conflict. This refers to mutual support and cooperation rather than one group expending their energy in forcing another group to work for them or conflicts over control of natural opportunities (land).

The Law of Human Progress is: “Association in Equality”. Association frees mental power for improvement; equality prevents dissipation of this power in fruitless struggles.

Causes of Decline

The disassociation of people tends to check progress. The prejudices and animosities that grow up between separated communities may become barriers to the exchange of goods and ideas (trade). These barriers may also lead to destructive warfare.

As society becomes complex conditions arise which may lead to inequalities: The concentration of political power in one person or small group; specialization of functions, which create privileged classes such as the military, judges, and politicians; and the increasing value of land, which leads to greater power and wealth for those who have monopolized it.

Such inequalities are not the necessary invariable result of social growth; they can be prevented by making proper social adjustments as new conditions arise.

The inequitable distribution of wealth and power tends to check progress. The “have-nots” are compelled to expend their mental power in merely maintaining existence, while the “haves” expend mental power in keeping up and intensifying the system of inequality.

The Law of Human Progress (Association in Equality) accounts for the rise and fall of civilizations. It explains all diversities, all advances, all halts, and retrogressions. Progress goes on as society tends toward closer association and greater equality. Progress is halted by inequality and disassociation.

Political equality alone does not assure the equitable distribution of wealth and power. It does not prevent the tendency to inequality in the ownership of land, which leads to the unequal distribution of wealth and power.

There are social conditions existing today, which if unchecked may lead to a decline of civilization—unemployment, declining wages, recessions, and inflation; increasing crime and worsening city slums; riots and civil disturbances; war and preparation for war; increasing taxes and governmental interference; land speculation and the constantly rising price of land.

However, by applying the remedy proposed by Henry George the cause of these problems—poverty and its attendant evils—would be solved. The majority of the resulting problems would cease. There would be full employment; affordable housing, and wages would increase with the march of invention. No one would be in fear of losing their job or degraded by poverty. Crime and diseases like tuberculoses and

pneumonia would be minimal, and much more time and energy would be devoted to progress.

The Central Truth

George's reform is in accord with the Law of Human Progress. It will open up greater opportunities for progress. It will make other desirable reforms easier. It is politically, socially, and morally sound. It is consistent with true equality and justice. It will produce a condition of true economic freedom. The increase of the rent fund under George's reform will promote equality instead of inequality.

"Liberty means justice, and justice is the natural law". Liberty is the true source of progress. Liberty is a condition wherein the rights and freedoms of all are honored and respected.

"Behind the problems of social life lies the problem of individual life." Henry George regarded this problem as even higher and deeper than social problems.

A summary

Labor applied to natural resources produces wealth. Capital is produced by labor and gives labor a greater efficiency. Title to land (the right of exclusive possession) is granted to give the producer security to keep what is produced upon and from the land. Population tends to concentrate in communities where their labor becomes most efficient. As only land of less potential productivity remains available for others, those with superior land enjoy an increasing advantage. This advantage is measured by the relationship between the potential productivity of better lands and that of the land that is still free (frontier). Wages everywhere are equal to the entire product, minus whatever is necessary to induce the storing up of capital, where the land is free. Interest everywhere will be whatever is necessary to induce the storing up of capital where the land is free. As the population tends to concentrate on particular lands and the frontier extends to less desirable lands, the advantage on all better lands increase. In the anticipation of increased land values, due to the increase in population, inventions, and the functions of government (infrastructure and public service), land is hoarded. Certain portions of all grades of land are unused or underused—held for speculation. When there is no longer any free land that will provide more than a bare subsistence, wages of the least valued workers fall to a bare subsistence (ameliorated by the Legal Minimum Wage and housing subsidies). Wages of superior workers and interest fall to a level below which the supply of skilled workers and capital would not meet the demand. Without free land every increase in production ultimately goes to landowners and other monopolists. The more land that is held out of use the more workers are unemployed. The process of land speculation causes cyclical Intensifications of unemployment called recessions or depressions.

Taxing the full rental value of land will deter land speculation, forcing people to give up land they are not fully using. It will create full employment and re-create the free-land frontier—an opportunity that will raise wages and interest everywhere to what could be produced by using the natural opportunities that are equally available to everyone. It will insure that wages increase with technology, and housing becomes and remains affordable. The rent of land, which will increase in densely populated areas will be sufficient to pay for the infrastructure, public service, and national defense. The remainder of rent can then be devoted to social purpose, including those who are physically and mentally unable to take care of themselves, and the advance of civilization.

Student: _____

Henry George Institute - Fundamental Economics - **Questions** Lesson 10

The Law of Progress

1. Are different levels of civilization due more to differences which inhere in individuals or in society?
2. What must the Law of Human Progress explain?
3. What are the incentives to progress?
4. What determines the amount of mental power devoted to progress?
5. To utilize this mental power fully, what is the first essential of progress?
6. What is the second essential of progress?
7. What is the Law of Human Progress?

Causes of Decline

8. How does disassociation of peoples tend to check progress?
9. As society becomes complex, what conditions arise which may lead to inequalities?
10. Are such inequalities a necessary result of social growth?
11. How does the inequitable distribution of wealth and power tend to check progress?
12. Does the Law of Human Progress (Association in Equality) account for the rise and fall of civilizations?
13. Does political equality alone assure the equitable distribution of wealth and power?
14. Cite some social conditions existing today which, if unchecked, may lead to a decline of civilization.

15. How would these conditions be affected by Henry George's remedy?

The Central Truth

16. How does George's reform accord with the Law of Human Progress?

17. What is the meaning of Liberty?

18. What does Henry George regard as a problem even higher and deeper than the social problem?

19. a) Summarize the important points of the course.

b) Add your own evaluation.

THE LAW OF HUMAN PROGRESS from Progress And Poverty (abridged)

Civilization is cooperation. Union and liberty are its factors. . .

What has destroyed every previous civilization has been the tendency to the unequal distribution of wealth and power. This same tendency, operating with increasing force, is observable in our civilization today. . . .

As corruption becomes chronic; as public spirit is lost; as traditions of honor, virtue, and patriotism are weakened; as law is brought into contempt and reforms become hopeless; then in the festering mass will be generated volcanic forces, which shatter and rend when seeming accident gives them vent. Strong, unscrupulous men, rising up upon occasion, will become the exponents of blind popular desires or fierce popular passions, and dash aside forms that have lost their validity. The sword will again be mightier than the pen, and in carnivals of destruction brute force and wild frenzy will alternate with the lethargy of a declining civilization. . . .

Whence shall come the new barbarians? Go through the squalid quarters of great cities, and you may see, even now, their gathering hordes! How shall learning perish? Men will cease to read, and books will kindle fires and be turned into cartridges! . . .

. . . . in the decline of civilization, communities do not go down by the same paths that they came up. . . . the decline of civilization as manifested in government would not take us back from republicanism to constitutional monarchy, and thence to the feudal system; it would take us to Imperatorship and anarchy...

Where Liberty rises, there virtue grows, wealth increases, knowledge expands, invention multiplies human powers, and in strength and spirit the freer nation rises among her neighbors. . . . Where Liberty sinks, there virtue fades, wealth diminishes, knowledge is forgotten, invention ceases, and empires once mighty in arms and arts become a helpless prey to freer barbarians!

Only in broken gleams and partial light has the sun of Liberty yet beamed among men, but all progress hath she called forth. . . .

Shall we not trust her?

In our time, as in times before, creep on the insidious forces that, producing inequality, destroy Liberty. On the horizon the clouds begin to lower. Liberty calls to us again. . . . It is not enough that men should vote; it is not enough that they should be theoretically equal before the law. They must have liberty to avail themselves of the opportunities and means of life; they must stand on equal terms with reference to the bounty of nature. . . . This is the universal law. This is the lesson of the centuries. Unless its foundations be laid in justice the social structure cannot stand. . . .

Henry George

1839 - 1897

Political Economist & Philosopher

On September 2nd, 1839, Henry George, the great American economist and social philosopher, was born in a three-storied row house at 413 South 10th Street in Philadelphia. His brief formal schooling was obtained at Episcopal Academy and Central High School. As a boy he traveled around the world as a seaman, then joined the California gold rush. There he became a printer, a journalist, an editor, and finally a world famous writer and lecturer. He died in New York in 1897.

George's best known work, *Progress and Poverty*, was written as an outcome of his witnessing the contrast between wealth and poverty in New York. It was completed in San Francisco in 1879. His later books included *Social Problems, Protection or Free Trade, A Perplexed Philosopher, The Condition of Labor, and The Science of Political Economy*.

George lectured on his ideas throughout the United States and Canada. He also lectured in England, Ireland, Europe and Australia. He was a candidate for Mayor of New York. In 1886 he came in 2nd in a three-way race (many say he was counted out), and in 1897, when it was felt certain he would win, he died a few days before the election.

George's major work, *Progress and Poverty*, is subtitled "*An inquiry into the cause of industrial depressions and of the increase of want with the increase of wealth—the remedy*," It is dedicated "*To those who, seeing the vice and misery that spring from unequal distribution of wealth and privilege feel the possibility of a higher social state and would strive for its attainment*".

In this book George examined and dismissed various theories about poverty and found the answer to be in the laws of distribution, which give, as material progress goes on, a rising share to rent (the payment for land). This is aggravated by land monopoly and land speculation. He proposed to solve the problem by taking the potential rent (rental value) of land as a "Single Tax", and abolishing all other taxes.

Influence

Progress and Poverty became the most widely read book on economics. It went into several editions and was translated into many languages. The book spurred an active movement for the propagation and application of its ideas. In England, George's ideas were in almost daily discussion in Parliament. The influence extended to other countries such as Denmark, Australia and New Zealand where land value taxation had been partially adopted. In the United States, the influence was felt in property assessment, special taxes on land values, single tax enclaves (communities), and public land policy. Prominent leaders such as Winston Churchill, Leo Tolstoy and Sun-Yat-Sen were influenced by George.

The Georgist movement continues with a few hundred people working in many countries around the world. Most of the efforts are focused on education. In that endeavor, perhaps half of the efforts are aimed at educating municipal officials in the benefits of shifting wage taxes, transfer taxes, and the real estate taxes to a tax on the value of land alone. Pennsylvania has had the most success in this regard. About 20 of its municipalities now tax land values at a higher rate than buildings, in varying degrees.

Comparisons

Henry George's chief nineteenth century rival in the field of economics was Karl Marx, whose socialist ideas and denunciation of capitalism contrasted with the espousal of a free market economy with equal opportunities for all. George's chief twentieth century rival has been John M., Keynes, whose ideas were widely applied. Keynes ideas were, however, increasingly challenged by the end of the 20th century. George's ideas, (though not tried on a large scale) have worked to the extent that they have been tried—increasing housing, jobs and economic activity.

Appreciations

Mortimer J. Adler: The reading of *Progress and Poverty* is an unforgettable experience. . . It is an incomparable statement of the democratic credo.

Louis D. Brandeis: I find it very difficult to disagree with the principles of Henry George.

John Dewey: It would require less than the fingers of two hands to enumerate those who, from Plato down, rank with Henry George "among the world's social philosophers.

Albert Einstein: Men like Henry George are rare, unfortunately. One cannot imagine a more beautiful combination of intellectual keenness, artistic form, and fervent love of justice,

Aldous Huxley: (Forward to *Brave New World*): *If I* were now to rewrite the book, I would offer a third alternative . . . the possibility of sanity . . . Economics would be . . . Henry Georgian.

Helen Keller: Who reads shall find in Henry George's philosophy a rare beauty and power of inspiration, and a splendid faith in the essential nobility of human nature.

Franklin D. Roosevelt: Henry George was one of the truly great thinkers produced by our country.... I wish his writings were better known and more clearly understood.

Dwight D. Eisenhower voted for Henry George for the Hall of Fame.

The White House Library includes *Progress and Poverty* in its collection of outstanding American books.

Henry George Institute - Fundamental Economics - Answers Lesson 10

1. Are different levels of civilization due more to differences which inhere in individuals or in society? To differences which inhere in society. All human beings are essentially alike. This is a conclusion which has been confirmed by modern anthropology. What makes societies, civilizations and nations different from one another is not the differences in individuals but the different traditions, beliefs, customs and laws which grow in every society.
2. What must the Law of Human Progress explain? Why past civilizations arose and decayed. Which social adjustments tend to advance and which tend to retard civilization.
3. What are the incentives to progress? The desire to gratify physical, mental and social wants.
4. What determines the amount of mental power devoted to progress? That which is left after mental power is expended in non-progressive pursuits of maintenance and conflict.
5. To utilize this mental power fully, what is the first essential of progress? Association. As people associate in communities, division of labor becomes possible, leading to greater productivity and the freeing of mental power for higher pursuits.
6. What is the second essential of progress? Equality. A condition of equality, freedom and justice. In short, an observance of the equality of human rights will lessen the wasteful expenditure of mental power in conflict.
7. What is the Law of Human Progress? Association in Equality. Association frees mental power for improvement; equality prevents dissipation of this power in fruitless struggles.
8. How does disassociation of peoples tend to check progress? The prejudices and animosities that grow up between separated communities may become barriers to the exchange of goods and ideas (trade). These barriers may also lead to destructive warfare.
9. As society becomes complex, what conditions arise which may lead to inequalities? The concentration of political power in one person or small groups. Specialization of functions which create privileged classes, such as the military, the judges, politicians (people who write laws, and people who administer them), etc. Increasing value of land which leads to greater power and wealth for those who have monopolized it.
10. Are such inequalities a necessary result of social growth? No. They can be prevented by making proper social adjustments as new conditions arise—distinguishing individually produced values from socially created values.
11. How does the inequitable distribution of wealth and power tend to check progress? The “have-nots” are compelled to expend their mental power in merely maintaining existence, while the “haves” expend mental power in keeping up and intensifying the system of inequality.
12. Does the Law of Human Progress (Association in Equality) account for the rise and fall of civilizations? Yes. This general law will explain all diversities, all advances, all halts and

retrogressions. Progress goes on as society tends toward closer association and greater equality. Progress is halted by inequality and disassociation.

13. Does political equality alone assure the equitable distribution of wealth and power?

No. It does not prevent the tendency to inequality in the ownership of land, which leads to unequal distribution of wealth and power.

14. Cite some social conditions existing today which, if unchecked, may lead to a decline of civilization. Unemployment, falling wages, recessions, inflation; Increasing crime and worsening slums; riots and civil disturbances; War and preparation for war; Increasing taxes and governmental interferences; land speculation and the constantly rising price of land.

15. How would these conditions be affected by Henry George's remedy? These conditions would largely be cured by eliminating the root of poverty, of which these conditions are the symptoms or result.

The Central Truth

16. How does George's reform accord with the Law of Human Progress? It will create a greater association in equality. It will open up greater opportunities for progress. It will make other desirable reforms easier. It is politically, socially and morally sound. It is consistent with true equality and justice. It will produce a condition of true economic freedom. The increase of the rent fund under George's reform will promote equality instead of inequality.

17. What is the meaning of Liberty? "Liberty means justice and justice is the natural law." Liberty is the true source of progress. Liberty is a condition wherein the rights and freedoms of all are respected.

18. What does Henry George regard as a problem even higher and deeper than the social problem? "Behind the problems of social life lies the problem of individual life."

19. a) Summarize the important points of the course. **A summary:** Labor applied to natural resources produces wealth. Capital is produced by labor and gives labor a greater efficiency. Title to land (the right of exclusive possession) is granted to give the producer security to keep what is produced upon and from the land. Population tends to concentrate in communities where their labor becomes most efficient. As only land of less potential productivity remains available for others, those with superior land enjoy an increasing advantage. This advantage is measured by the relationship between the potential productivity of better lands and that of the land that is still free (frontier). Wages everywhere are equal to the entire product, minus whatever is necessary to induce the storing up of capital, where the land is free. Interest everywhere will be whatever is necessary to induce the storing up of capital where the land is free. As the population tends to concentrate on particular lands and the frontier extends to less desirable lands, the advantage on all better lands increase. In the anticipation of increased land values, due to the increase in population, inventions, and the functions of government (infrastructure and public service), land is hoarded. Certain portions of all grades of land are unused or underused—held for speculation. When there is no longer any free land that will provide more than a bare subsistence, wages of the least valued workers fall to a bare subsistence (ameliorated by the Legal Minimum Wage and housing

subsidizes). Wages of superior workers and interest fall to a level below which the supply of skilled workers and capital would not meet the demand. Without free land every increase in production ultimately goes to landowners and other monopolists. The more land that is held out of use the more workers are unemployed. The process of land speculation causes cyclical Intensifications of unemployment called recessions or depressions.

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