Henry George

Political Economy and Social Philosophy

Part I – based on Progress and Poverty by Henry George

Compiled by Mike Curtis

Political Economy & Social Philosophy Part I ~ Lesson 1.

Political Economy & Social Philosophy, Part I 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.

Labor is applied to the natural resources. They are separated, combined, or changed in form or in place. First, capital-wealth is produced (tools, machines, buildings, seeds) 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 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's the case, no matter how much any worker can increase his productivity, if all other workers are still more efficient, he 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 him 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; the things that are included within those definitions are objective.

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 <u>satisfy human desires</u>; 2. <u>are made by human exertion</u>; 3. <u>are made out of natural materials;</u> 4. <u>have a</u> <u>value in exchange</u> (that results from production). Wealth exchanges equally with other products requiring similar efforts to acquire.

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 are governed by the same laws. It is simply the study of how civilized people make a living.

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 the market, 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.

LAND	**LABOR**	**CAPITAL wealth**
The entire material universe, excluding people and products -------------------------------- *Examples* 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	Human exertion resulting in exchangeable products ------------------------------------ *Examples of* ***People who perform labor*** Mechanic, carpenter, factory-worker, truck driver, salesman, plantation slave, General Motors executive.	*Products used to make more products for exchange.* They must be: 1. Material; 2. Produced; 3. Satisfy human desire; 4. Have value in exchange. -- *Examples* Tools, machines, buildings, crops on a farm, oil in a ship, taxi cab, Products for sale.

The next chart starts with exchangeable products that are held by the ultimate consumer. They are termed wealth. Since they are not 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.

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

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.

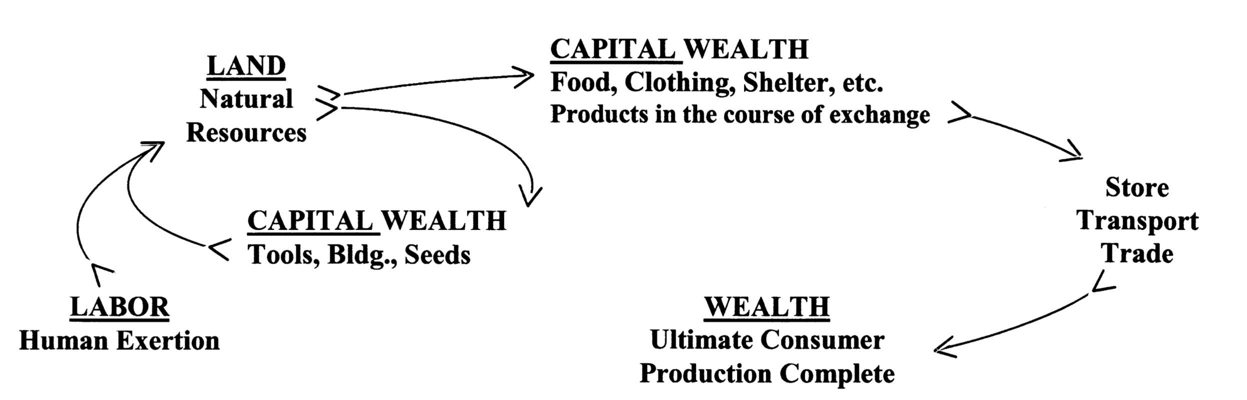
Land, Labor and Capital are the factors of production. They are mutually exclusive. (Nothing can be more than one factor of production)

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 selling are part of getting a natural resource to the consumer in the desired form. Therefore, they are part of production.

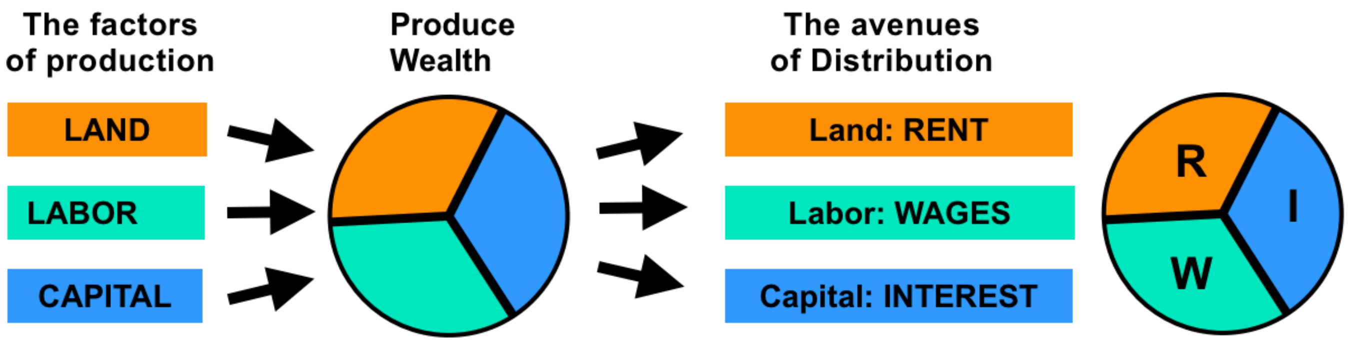
Production is complete when the product is in the hands of the ultimate consumer.



The distribution of wealth is the division of a product among the owners of each factor that produced it.

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 they are connected.



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 billions and 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 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, the product cannot be exchanged each week as the worker is paid. However, the employer's capital is never lessened by the payment of wages. The value of her labor is adding to the value of the ship. The product of labor precedes and stands in place of the wages paid. When erecting a high-rise building, as each floor is added the value of the building is increased. The value added to the building each week is exchanged for the wages paid.

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 value added to the partially completed ship. That is to say: when construction begins, there is no stock of food large enough to support the workers until the ship 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 siting idle and deteriorating while poverty and slums are increasing.

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 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 Worlds 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, many 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.

Arranged by population density per Sq. Mile of arable land

Country	% living on less than $2 a day	G.D. P. Person	People per Sq. Mile of Arable
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.

In supposedly overpopulated countries, there are large unused areas of potentially productive land, very inefficient production, and large portions of what is produced going to non-producers.

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.

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.

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 there would be more than enough wealth to end poverty — yet it persists. Therefore, it is not in the laws of production, but the laws of distribution that the persistence of poverty must be explored in pursuit of its cause. In political economy the distribution of wealth refers to the division of wealth among the factors that produce it. The natural laws of distribution result 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 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 other 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 — even if the owner and user is the same person.

The Potential Rent does not depend on a particular land's own productivity (ability to yield wealth), but on that land's productivity as compared to the best land that is still free for all others (least productive land in use). 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 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 piece 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 can be used without the payment of rent, if there is any.

It is generally accepted, if no one is willing to pay for the use of land, it must be assumed it has no potential rent.

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, what is left goes to landowners as the actual rent. Other monopolies may take some of what would otherwise go to rent. Wealth that goes to taxes and monopolies may be thought of as diminishing what is produced.

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 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 an hour. 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**			

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 wages are the most important object of the course.

Review

Interest as used in political economy refers only to the return on 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. Only in cases where stocks or bonds represent a claim on capital (products of labor) do their returns represent economic interest.

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 use people, but people that 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? In other words, why are people who borrow capital, expected and willing to pay back more than they borrowed?

The first thought is usually that capital increases the results of labor; therefore, 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. Next, an example is explored 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 bows and a sets of arrows, which took two weeks to make; William has none. James offers to lend William the bow and arrows for one year. They both agree, the bow & arrows will last for 50 weeks. If William borrows the bow and arrows, he can hunt for the first 50 weeks, 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 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. 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, it gives 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 greater result — a result not possible without the use of capital. Yet, William was not willing to borrow the capital if he had to pay interest. Therefore, we must conclude that the cause of interest comes from something other than the increased productive power of capital. 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? Does it age and increase in value? What about seeds and animals; do they grow? Wine does not age until it is prepared; seeds do not grow until they are planted. 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. If machines eliminate steps that are originally necessary, but never need repeating as long as the capital is maintained, then there is an advantage 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 type it ever again.

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

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 seeds or wine.

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.

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 more than 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 more than 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. No one will pursue wages if they can get a higher reward from the increase of capital. Therefore, wages and interest tend to an equilibrium. "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)

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.

The general rate of interest will be proportional to the total value resulting from the advantage of time in the use of existing capital where the land 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 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 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). When rent arises, ***"Wages are determined by what labor can produce on the best land that is free."*** This is the law of wages.

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 also fall. Without free land, wages would fall to an amount below which the least productive workers would be hungry and weak, the skilled workers would loose the incentive to learn their skills and accumulate knowledge, and the incentive to lend capital would be lost. This will be fully elaborated in the next lesson.

Although wages and interest 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: become a smaller or larger portion of the entire product.

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 that are never questioned until stated. We may desire fresh air and exercise, so we take the long way home through the park, but that was our desire, rather then 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.

“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

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 extends the margin of production (free land) to less potentially productive land. However, the increases in population also makes possible a greater division and specialization of labor and trade. The lower productivity on the land that has come into use is offset by an increased productivity on all superior land, which have more dense populations.

The average productivity may remain the same or increase because of increased population and cooperation on superior lands. It is possible that wages and interest will remain the same or increase as an amount. However, rent will not only increase as an amount, but as a portion of what is produced — as wages and interest become a smaller portion of the total production.

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 generally 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. Infrastructure and tall buildings enable a greater density of population, but only if population does become more dense, does it increase rent.

Effect of Inventions

Inventions, innovations, and new discoveries enable 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, which increases the 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 margin. The free land opportunity is potentially less productive, and wages and interest fall, increasing rent. However, inventions and new technologies tend to increase production more than enough to compensate for the extension of the margin. Therefore, both wages and interest and rent tend to increase as an amount.

Most inventions increase productivity more where population is dense than where it is sparse and the land is free. Therefore, rent tends to become a larger portion, and wages and interest, a smaller portion of what's produced.

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 greater cooperation that resulted on particular lands increased rent as amount and 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. The greater the population, the more these improvements increase production. As long as there is free land, it increases wages and interest as an amount while it increases rent 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, people tend to acquire and hold more land than they need. They speculate that population 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 value.

Holding any land out of use, whether it is mineral land, farmland, or land in cities, prematurely extends the margin and lowers wages and interest. 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 2007 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, increases the demand for farmland, and prematurely destroys the wilderness.

Land speculation, which means holding land for the increase in value, is not always profitable. Sometimes land values fall. Sometimes the holding costs offset the gains. 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.

Land speculation prematurely extends the margin until there's no free land. When labor and capital have no alternate way to employ themselves, wages and interest tend to a bare minimum. Wages of the least productive, least demanded workers tend to a bare subsistence: an amount 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 no longer have the incentive to acquire those attributes. Without free land the rate of interest would fall to the point below which there would be no incentive to 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 and therefore the rent would fall too.

The rent of particular land may go up because of an increase in its productive potential or an extension of the margin. Rent may be calculated by separating what is paid for the use of a house from what is paid for the use of land, or by distributing a product into wages, interest, and rent.

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 withheld from full 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.

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 increase 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
Wages & Interest	3	3	3	3	3	3	3	3
Rent	**33**	**29**	**25**	**21**	**17**	**13**	**9**	**5**

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 G.D.P. Does not increase, and a depression as a period of 10 month in which the economy contracts. Both are disconnected to from unemployment. There are several 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 is diminished.

With deflation, those who owe money find that everything that is paid for, including wages, are 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 then only owes 50 bushels or corn. Conversely, If corn sold for $2 a bushel, the farmer who borrowed $100, owed 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 fundamental force in bringing about the recurring cycles of increased unemployment is labor and capital's inaccessibility to 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 add stories on top. Therefore, although the land may have a higher rental value, 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.

However, 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?

The Selling Price Of Land

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 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%, than 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.

Land Speculation

As technologies advance, the same amount of labor and capital yield greater results and greater incomes from any particular piece 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. 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, but many landowners are encouraged by this not to sell. Although they get no income from the land the value of their asset tends to increase. 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 were 6% without inflation, she would have enjoyed a higher return by holding idle land.

Reverberations

The more the economy expands, the higher the price of land is bid, and the more profitable holding it as an investment becomes. At some point 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 new cars; 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. The reduction in demand for goods and services reverberates throughout the economy and more people get laid off in a cycle of recession or depression.

As unemployment reduces 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, chose 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. Until land is sold unemployed labor and capital cannot engage in production.

Requisites To End A Recession / Depression.
In order for the price of land to be affordable and workers to be reemployed 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. 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. 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 bids up the price of land. If, after credit was withdrawn, all the land was sold to the highest bidder, no matter how low the bid, land would be sold and developed and no recession would follow.

Ameliorations of Recession / Depression
When companies buys 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 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 price of land and makes the land more affordable.

Sometimes one country invades another, as the Japanese invaded Manchuria or the Germans invaded Poland. 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.

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 Min. 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 for the same number of jobs brought wages back to the previous after tax level. All the savings would go to landowners and other monopolists.

Increasing The General Level Of Education would be possible by either diverting government revenue from wasteful expenditures or by shifting the individual focus from recreation to study. Unlike the exceptional individual who increases her personal level of skill and knowledge and enjoys a higher wage, an increase in the general level of education will have no such effect. Under the present no free land circumstance 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 95% of Americans can read and write those skills are basic requirements for even the lowest paying jobs. All higher wages are based on the lowest wages and the supply and demand for superior workers. 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 industry and the steel companies. In those cases, patents and tariffs against foreign competition enable higher profits out of which they can pay higher wages.

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

Cooperation is sometimes proposed between labor and capital. Risks 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. The lack of competition in food cooperatives rarely deliver products cheaper than the free market. If they did, the increased productivity would in time bid up the price of land.

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.

Governmental Direction And Interference have alleviated poverty. States run farms in other countries have fed large numbers of 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. However, they have not created jobs or been able to eliminate poverty.

Land Reform or land redistribution has helped many people in impoverished countries. Where it has been implemented it has increased the number of landowners, but everyone did not receive land. Even if everyone gets land unless everyone gets land of equal value it is not 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. With every redivision of land comes the dilemma of the ownership of the improvements.

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." All people must have equal rights to the bounty of nature.

Henry George asserts: before we ask will it work we must ask is it right? First it must pass the test of justice. He asks: do all people have an equal right to life? And everyone answers yes, "certainly I do". Because virtually everyone believes it, it is accepted as a universal perception. He then asks can human beings live without land? And of course they can't. This is especially true when you consider that he is using the term land to mean all natural resources — everything 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 ownership (property) is production. It is the right to the fruits of one's own 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. 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.

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.

Although priority of occupation has often given exclusive and perpetual 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 looses 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 control. 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 and exclusive control are essential to modern production. At the same time, paying rent to the community for 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.

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 opportunity only.

Because rent represents a value resulting from exclusive assignment of a common opportunity, and an advantage over others, it belongs to the community

The entire rent of land can be taken without affecting any penalty on cultivation, excavation or the construction of buildings. That is because rent is a surplus in excess of the rewards to labor and capital.

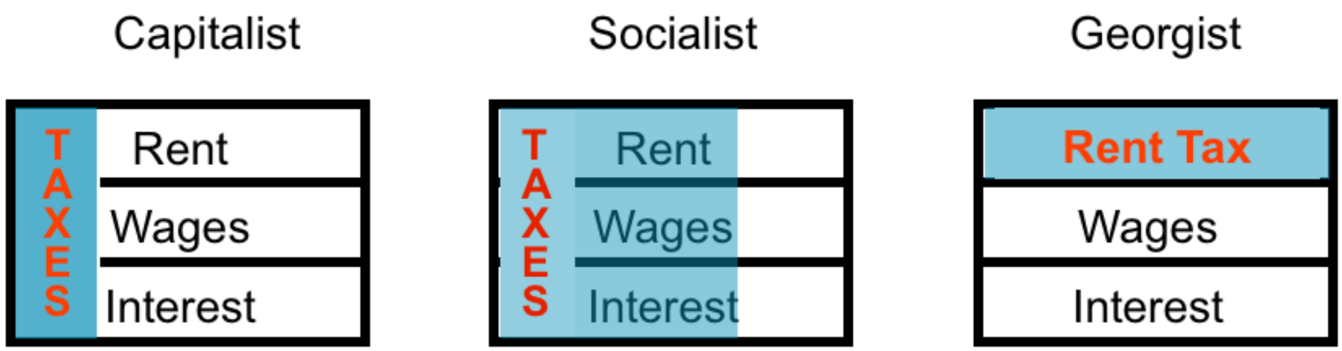
Henry George proposed a Single Tax on the rental value of land.

This proposal grants exclusive control of land to individuals and corporations. They are at liberty to direct their own economic activities within the legislated limits of health, safety, and the environment. However, by collecting for the community or society as a whole, the rental value of land, a common ownership is conferred.

This is very different from 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 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 to the land that was being divided and reassigned.

Most ideologies 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.



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.

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). 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 it already owns in morality. 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. Treating land as common property requires only that we collect for the community the land's 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 capital. 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.

Only a tax on the rental value of land (potential rent) satisfies all four of these canons.

Under the present circumstances, taxes on sales, buildings, wages, or interest prohibit production on the least desirable land adding to unemployment and reducing total production. For example, some of the worst urban slums and the poorer mineral land are idle because production does not total enough to pay wages, interest, and taxes. In some cases taxes prohibit higher buildings that would provide housing or jobs

Taxes on imports often alter the incentives and divert labor and capital from their most efficient endeavor to one that is artificially more profitable. This also reduces the total production.

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 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 that was willing and able would be working (full employment) total production would further increase.

A tax on the value of land does not add to the value of things that are made and sold upon it. This is very different from a sales tax that adds to the cost of production and therefore, the value of the products being taxed.

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 land. The rental value of land measures the total of all the advantages that attach to it.

Because society collects a value equal to those advantages does not increase the value of those advantages. A tax on products increases their cost of production; therefore, it increases their price. 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 use of a common asset.

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. It may require professional training, but developers do it every day. Next, it must be determined what a building owner would charge for the use, maintenance and management of the building and other improvements. This is a total of management and maintenance fees, depreciation, interest rates, and risk factors. By subtracting this total from the amount that could be charged for the use of the building on 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 the rental value of land is that it be widely understood. Legislators and political executives from mayors to the president would have to follow their constituents.

Lesson 9 — Effects of the Remedy

Based on Progress and Poverty Book IX

Effects upon Production and Distribution

If the rental value of land 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 again.

Taxing the rental value of land would stop land speculation and recreate the free land margin. 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 a commensurate amount.

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 due to greater cooperation, invention, and additions to the infrastructure would increase productivity disproportionately more on superior land where population is denser.

Wages and interest would increase in general. Rent would increase on particular lands and would be used to maintain the infrastructure and public services, which enabled denser populations. The rest would enhance the common fund in which all people would benefit.

The selling price of land, which is often a large part of buying a house or starting a business, would be eliminated. The Selling price of land 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**

With the rent being taken in taxation there would be no income from land, and therefore 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 below, there is no income that goes to the landholder. Therefore, no one would be willing to pay for the title to land. As soon as people stopped buying land no one would hold it for the increase in its selling price. Not having to pay the speculative price for the use of land would make it much easier to acquire. A tax on the rental value of land would be levied on the "Potential Rent" of every location, so it would be the same amount whether the land was developed with buildings or left vacant. As land speculation ceased and land was put to its most efficient use, labor and capital would migrate to the best here-to-fore 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 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 medical research, national healthcare, social security, and development of clean energies. It could also choose to grant a cash dividend to all our residents.

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 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 — interest. Both interest and wages would be higher than before.

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 than they pays now in total taxation. When a house is sold, it is only the building and other improvements that are paid for. 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.

The highest land values and therefore the largest revenues from a tax on the potential rent would be derived from commercial, industrial, and mineral lands like those with oil, and gold etc.

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 allow for larger apartments.
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. 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, but some of the rent could go directly to each resident in the form of benefits or even a cash dividend.

Without the fear of unemployment or the depravation of low wages there is every expectation that in addition to material satisfaction people would 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 their full potential. With an abundance of opportunity the moral, intellectual and cultural life of society would tend toward constant improvement.

The Law of Human Progress

Based on Progress and Poverty, Book X and The ConclusionThe Law of 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.

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 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 — 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, and the resulting problems would cease.

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 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 use) is granted to give the producer security to keep what is produced upon the land. Population tends to concentrate in communities where their labor becomes most efficient. As the more potentially productive land is appropriated its owners enjoy an 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 what is necessary to induce the storing up of capital, where the land is free. Interest everywhere will be what 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 increases. In the anticipation of increased land values, due to the increase in population, inventions, and the functions of government, land is hoarded. Certain portions of all grades of land are unused or underused — held for speculation. When all the land is monopolized (there is no free land) wages of the least valued workers fall to a bare subsistence. Wages of superior workers and interest fall to a level below which the supply of skilled workers and capital would not meet 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 recession or depression.

Taxing the full rental value of land will deter land speculation, forcing people to give up land they are not fully using. It will re-create the free-land frontier, which will raise wages and interest to include the value of everything that could be produced by using the natural opportunities that are equally available to everyone. It will insure full employment and devote the rent of land to social purpose.

THE LAW OF HUMAN PROGRESS (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 South10th 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 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 USA, the influence was felt in property assessment, special taxes on land values, some single tax enclaves, and public land policy. Prominent leaders were influenced by George, such as Woodrow Wilson, Winston Churchill, Leo Tolstoy and Sun-Yat-Sen.

The Georgist movement continues today, although most of its efforts are to shift real estate taxes from land and buildings to land alone. Pennsylvania has had the most success in this regard. About 20 of its municipalities now tax land values more 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.