

Saving The Middle Class

By Mike Curtis

“It is as though an immense wedge were being forced, not underneath society, but through it. Those who are above the point of separation are elevated, but those who are below — are crushed down.” Those are the words of Henry George in his classic work: Progress And Poverty — 1879.

Well, it’s happening again. “The rich are getting richer and the poor are getting poorer.” There are an increasing number of people on welfare, and many of the working poor are getting the Earned Income Tax Credit, which is largely a subsidy to their employers and the consumers of their work. All the while, the Middle Class is being swept away. How did we get here? Why are people who are willing and able to work, unable to exchange their labor for the products of other people’s labor? Why, as technologies advance and the results of human exertions increase, do wages tend to remain constant? How do we create full employment for all who are willing and able to work, and insure that their wages will be equal to the value that each worker adds to the total wealth?

During the 19th century there were a half a dozen Panics or Depressions in America with intense unemployment and privation that generally lasted two or three years. However, with those exceptions, the middle class was expanding for most of the century.

Then in 1873 there was a world wide depression and it lasted for five long years. In the period following, George observed a tendency toward the concentrations of people, which engendered great divisions of labor where more and more jobs required less and less skill and knowledge. productivity was rapidly increasing, but the Frontier was approaching extinction, and wages were starting to decline. Jobs that required the least skill and knowledge received wages that tended towards a bare subsistence. The wages of those with greater skill and knowledge were falling too — even as their productivity increased. By 1900 there was a standard where people in factories worked ten or twelve hours a day six days a week for the bare necessities.

The 1920s was a period of phenomenal invention and rapid industrialization. Although farmers, who were becoming a smaller proportion of the population were not doing well, the affordable car, electric and plumbing, telephones and radios, washing machines and refrigerators were increasing our standard of living. Productivity was increasing at an amazing speed. Legal immigration was reduced, and it certainly had an effect. However, whether it was simply the increasing demand from the addition of a multitude of new factories and

falling prices, or some limiting factor such as the restriction of immigration, employment and wages were increasing, and with it the middle class. Then came the Depression of the 1930s that lasted for more than a decade — and the Middle Class shrank again. In the depths of the Depression America passed the Minimum Wage laws, the eight hour day, Social Security, and the right to collective bargaining.

Along came World War II, followed by another period of increasing productivity. This time the Minimum Wage and the right to collective bargaining counteracted what would have in time increased the supply of workers over the demand from expanding production. The G.I. Bill subsidized homeownership and gave returning veterans greater educational opportunities.

In 1968 the Minimum Wage was the highest it has ever been in terms of a standard of living. And that would not have happened if Congress had not increased it by more than enough to compensate for inflation. In the early 1950s union membership peaked at nearly a third of America's workforce. These two factors coupled with the proliferation of mass produced housing and the Veterans and Federal Housing Administration's government guaranteed low interest mortgages are perhaps the most important of many reasons why wages and the Middle Class were at their peak in 1968. This period preceded a surge in inflation and the price of oil, which quadrupled with the OPEC embargo.

Using today's dollars, the current Min. Wage is \$3.50 per hour less than it was in 1968. This is because Congress did not increase it enough to compensate for inflation. And because the legal minimum is the base above which supply and demand determines the additional pay of superior workers, all workers are receiving about \$3.50 per hour less as well. In the early 1950s nearly 33% of U.S. workers were unionized and today it is only 11%. Government employees have steadily increased their union membership, but the decline in the private sector union membership has been much faster.

How to save the Middle Class. Shifting the income tax to the rich and super rich won't raise the take-home pay of the Middle Class. The legal minimum wage sets the floor on wages. It is the after-tax pay above that minimum that is used by employers to compete for superior workers, and it creates the incentive to learn those superior skills and knowledge. Those at the legal minimum wage don't pay enough beyond Social Security and Medicare to make any difference. Therefore, shifting the income tax to higher incomes won't alter the take-home pay of Middle Class workers. The increase in taxes paid

by the rich would be off-set by lower before tax wages paid to the Middle Class.

We could invest more in public education. Those who earn higher wages (which includes salaries) certainly have more knowledge and skill, but increasing our investment in public education won't save the Middle Class. Basic reading, writing, and math skills were once rewarded with higher pay. Now, they are required along with computer skills just to get most Minimum Wage jobs. An increase in the general level of education will yield greater productivity, just as it has in the past, but it hasn't and it can't raise the general level of wages, for one reason that will be forthcoming.

We could increase the legal Minimum Wage gradually over time and peg it to inflation, or better yet, the general increase in productivity (per capita GDP). That way, businesses could factor it in when negotiating the purchase or long-term lease of their real-estate. We could probably grant labor unions greater latitude in collective bargaining without going so far that it stifled investment and productivity. We could remove the advantage of hiring part-time workers, require employer paid vacations and healthcare. We could even adopt national healthcare paid for by the government with higher taxes. But, none of these interventions and redistributions of wealth can prevent the fundamental problem, which is unemployment generally and the intensifications of unemployment with each recurring recession. The more people are unemployed, the less wealth there is to distribute and redistribute.

According to the Bureau of Labor Statistics, the rate of employment is now (2016) at 59.6% for Americans over 16 years old. Back in 2000 it was 64.6%. That means that 5% more people were working in 2000 which was the highest percentage since 1948. The B.L.S. Also listed unemployment at 4% in 2000 and only 4.9% today. This suggests, falsely, that in just 16 years, an additional 4.1% of the population have sufficient income that they no longer need or even want to work. With the advent of household conveniences like washing machines and clothes dryers, permanent-press clothes, pre-packaged food, and microwave ovens many hours have been saved. This has continually increased the number of people who were able and wanted to do more than housework (become gainfully employed). Therefore, comparing employment statistics in one period to another several decades later, would not give an accurate account of the changing number of opportunities for people to get a job. However, in the short run, it is a much more accurate way to measure the number of jobs.

The best way to save the Middle Class is to create a society where all people, rich and poor, have an equal opportunity and an exclusive right to the results of their labor. This starts by socializing the natural opportunities. They include land that is farmed, land under houses, Apartments, office buildings, factories, and stores. They include land that contains minerals, energy, and airwaves. In order to make sure that everyone can keep securely what they produce on and from these opportunities it is necessary to grant exclusive possession of the land to be used — for who would plant a crop, much less build a giant skyscraper if they had no title granting exclusive possession? However, if the government, which represents the people as a whole, made each title to land conditional upon a payment of its rental value we could satisfy all other peoples equal right to the same natural opportunity. And at the same time, the title would grant to all landholders the right to keep securely everything that could be attributed to their individual or corporate productions on and out of the land.

The Middle Class dilemma, just as the lower class dilemma, is a shortage of job opportunities, static (presently falling) wages and the rising price of housing. So, how did these problems manifest, especially in the United States with its vast and bountiful resources and sparse population. To start with, people naturally tend to concentrate in communities. It is not only where the land is most fertile or rich in minerals, but where nature is most favorable to trade. There labor takes on a far greater efficiency. The more people there are within a community, the greater the potential for divisions of labor, the greater the benefit of machines, and the greater the benefits of trade. As communities grow so increases the productive results of each of its members — up to a point.

As more and more people concentrate in a workshop, the space for each worker shrinks until the actions of one person impede the actions of others (the law of diminishing returns). It requires more labor to build a multi-story workshop, but the larger space per worker, under the right conditions, yields a level of productivity that more than compensates for the higher cost of the building. The same law applies to the infrastructure with water and sewer systems that enable a greater density of population; paved roads that expedite the movement of people and goods; and public services that maintain order — all of which enable a denser population with greater divisions of labor and economies of scale.

The Value of Land.

The continuum in the quality of natural opportunities is the reason that some land has value. The difference between the potential of land that is still free,

and the greater potential of superior land is the measure of its value. To reiterate: The greater productivity that results from superior opportunities is enhanced by the presence of population, and a greater population is enabled by the infrastructure and public service. Land rent can be calculated by the difference between what people would be willing to pay for the use of buildings and other improvements with a parcel of land, minus all the expenses involved in providing those improvements (the return to the improvements plus maintenance, management, and depreciation). Land rent includes that portion of any product of service that is realized from the ownership of land.

The actual rent of land is often far less than the Potential Rent (rental value) of land. Both underdevelopment and over development yield less than the Potential Rent. Whether it is a building, mining apparatus, or manufacturing machinery, there is an amount of capital that will yield the maximum income over and above the cost of production. Surface parking lots in cities are grossly under developed and do not yield the full rental value of the land. The Empire State building was for decades over developed. After the interest was paid for the cost of the building, plus maintenance, management, and depreciation, the landowner got far less income than he would have gotten with a much shorter building.

The Rate of Wages.

Looking at the other side of the equation, what determines the general rate of wages? If there is free land, as there was in the early days of the United States, then wages everywhere are equal to whatever can be produced where the land is free. The income from buildings and machines will be equal to whatever is necessary to induce the storing up of those products where the land is free.

When there is no longer a free alternative place to live and work that will yield any more, wages tend to a level below which productivity and the rental value of land would fall as well. That is to say: there is a point at which a reduction in wages results in an even greater reduction in productivity, so the net effect is lower land rent. Without free land, wages of the least productive workers tend to a bare subsistence. This is counteracted by the Minimum wage and other intervening legislation, but the tendency remains. Superior workers with greater skill or knowledge get only what rewards are necessary for the supply of such workers with each set of skills and knowledge to meet the demands of the market. When there is no free land that will yield more, the return to buildings and machines will fall to the point below which the shortage of those products would diminish production.

The foundation of American prosperity was accessible affordable land. In the early days of the country the Federal and state governments both sold millions of acres at very affordable prices. The Federal government even financed many of the sales. Then, in the middle of the Civil War there was the Homestead Act. To be sure, the lands that were granted were among the less fertile plots, but over half the arable land in the United States was assigned that way. The rail roads, which had received large tracts of land as a bounty for laying the tracks and providing service, flooded the market with cheap land and low interest as a way to establish communities and increase the value of the remaining portions of their holdings. It may have been a small percentage of families that had actually received a Homestead or railroad purchase before 1873, but with the exception of the periodic panics and depressions, the free and cheap land opportunity kept wages high and gave the majority of Americans a standard of living measurably above that of the rest of the world.

By 1880 one in four farms was rented from another person, and the standard of living among non-landowners was falling — even as productivity increased. The Oklahoma Land Rush in 1889 was the last significant opportunity to get free land, and for all intents and purposes the frontier was categorically gone by 1890. Although free land was still being offered (the very last plot assigned 80 acres in Alaska in 1988), it was so poor that it offered no viable alternative to working for someone else at a wage that was tending towards the minimum below which productivity would fall. The Federal government still owned about a third and the state governments owned about a sixth of the of the country — this included mountains and deserts, swamps, and waterways, but for all intents and purposes the vast majority of potentially productive land, given the level of technology, was then privately owned, just as it is today. Not that it was fully used, but it was owned.

As the quality of the free land that was offered became less fertile, all the better land increased in value. Every time the population of an area increased, divisions of labor, productivity, and the value of its land increased. Almost every new invention increased productivity more on superior land, and therefore, the value of superior land increased. Every time a road or a bridge was built, it increased the efficiency of cooperation, and the value of land increased. For these reasons, people were, as they are today, inclined to acquire land as an appreciating asset. The more land that is held that way, the quicker it extends the free-land margin and the quicker it lowers wages. Every time the population increases, every time a machine replaces a worker, more land must come into production. If it doesn't, unemployment results.

It is doubtful if there is any record of how much land was held in whole or in part for speculation (an appreciating asset) in 1880. We are told that a large portion of the land that was titled in the Homestead Act ended up in the hands of speculators. The railroads sold millions of the acres of land they were given as a bounty for building the tracks and establishing service, but they also held a large percentage as an appreciating asset. People have always acquired more land than they needed because it would be needed by themselves, their children, or others, and its value keeps going up.

By the 1880s less than half the population was directly engaged in farming. Cities and villages were growing rapidly, and development often leapfrogged past empty lots that were held for speculation. It was not just completely idle urban land that prematurely extended the margin. Much of the land was under used. There were vegetable gardens in the city of New York. One story buildings were often maintained where multi-story buildings would have been far more profitable — employing or housing far more people in the centers of population.

Today farmland can be leased and put into full production without any permanent buildings. However, with that and few other exceptions, land must be developed before it can be fully used and its potential income derived.

The selling value of land is based on its potential income, minus real-estate taxes. This separates the rental value of the land from the potential incomes of landowners. The landowners potential income is capitalized into a selling value. This is tantamount to asking: How much would have to be invested at the current rate of interest to yield the same amount as the landowner's income. For example: If the after tax income was \$100 then at 5% interest \$2,000 would have to be invested to yield the same \$100 income. Therefore, the selling of land yielding \$100 would be \$2,000. In addition to a capitalization of the current income, a speculative component is usually added to capture some of the expected increases in the future. This is the result of the person who has the greatest expectation and the most money out bidding all others.

Getting the potential income from land requires a capital investment in buildings or other improvements that are often worth more than the selling value of the land itself. By contrast, getting the increase in the selling value of land requires little more than paying the real-estate taxes. The annual increase in the value of land, minus the real-estate tax is the full return on idle land and the motive for holding it.

Land use today.

According to Wikipedia, U.S. farming uses a total of 922 million acres — over half of all the privately held land. Although the production of food involves tractor factories, trucking, and supermarkets, only about 2% of the U.S. population are actually working on farmland. Just 4% of the privately held land (66 million acres) is taken up by the cities and suburbs where 80% of the population lives and works.

Within that tiny portion of land where the vast majority of the people live and work, there is an enormous public investment in streets and bridges, utilities, and public service that enables such dense populations. And within every one of those cities and suburbs there is idle and grossly underused land that in total could employ and house tens of millions of people. There are also large polluted areas in old industrial cities that could be cleaned and reassigned for jobs and housing.

How much land is needed to employ everyone in any country may be impossible to know. There may be as much as five acres of privately owned land per person in the United States, while the tiny Island (city state) of Singapore has more than 35 people for each acre. Both offer a relatively higher standard of living than the majority of countries.

As long as other countries are willing to trade, the Law of Comparative Advantage allows each country to produce that for which it is best equipped. It could be agricultural, mining, or manufacturing; it could be research or financial services; it could simply be trade. Each of these productions requires a different kind, and a different amount of land. Therefore, it can not be determined statistically whether any country has enough land (natural resources) for its people to live, work, and produce enough wealth to live a prosperous life.

However, whenever a country has unemployed people who are willing and able to work, and, at the same time, valuable land that is unused or grossly underused, the one is clearly caused by the other. By one recent estimate, it takes about an acre of land to feed each person. The world still has slightly more than an acre of arable land per person. The U.S has over 2 acres of arable land per person in agricultural production, and the U.S. Exports a large portion of the food it produces. Whether technology will compensate or not as population grows, it is certainly a concern, but it is not the cause of the unemployment, homelessness, and poverty with us today.

No matter how much potentially productive land a country has, it is the degree to which land is treated as private property that determines the opportunity to hold it unused and underused as an appreciating asset. As long as it is profitable to hold unused and underused land enough people will do it until all the potentially productive land is owned. At that point wages fall and the cost of housing goes up. As populations increase and inventions replace workers the number of new jobs and units of housing are determined by the amount of land that is actually available for use. The more land that is unused or underused the more people will be unemployed and homeless.

Ending Land Speculation.

Saving the Middle Class & creating universal prosperity requires an end to land speculation. All land that is assigned for exclusive possession must be put to its economic potential. Realtors call it the Highest & Best Use. It requires an assessment of the rental value of all privately held land, which includes minerals and even the electromagnetic spectrum, and the collection of those rental values for social purpose. It also requires the elimination of all confiscatory taxes like sales and income. An initial assessment requires extrapolations since all other taxes diminish to an equal degree the value of land.

Free Land.

As labor and capital migrate from less to more potentially productive land it increases the results of labor. The denser populations enable greater divisions of labor and they increase the results of the infrastructure and public services. As people migrate to cities and suburbs it reduces the demand for less potentially productive rural land and recreates a free-land opportunity. That is to say: as the demand for less productive rural land decreases, more of it will lose all value and be available to live and work on without payment.

Rising Wages.

As productivity on the free land increases with each new technology, the general rate of wages increases with it, for no one will work for someone else unless they are paid at least as much as they could have produced working for themselves where the land is free. The same thing applies to the return to capital (rewards to wealth used to produce more wealth). Its return will be equal to the rewards necessary to induce the storing up of capital where the land is free.

It is easy to imagine that the free land opportunities would be overwhelmed. However, the fact that the rental value of all superior land (land with value), would have to be paid each year would mean that the valuable land would have

to be put to full use. Otherwise, the landholders would not have enough income to pay the charge. As each landholder put their land to full use it would draw people to the more potentially productive land with higher wages, and it would eliminate the incentive to live and work on the free land. It creates equal opportunity and exclusive rights to the product of one's labor. It increases productivity and delivers full employment to all who are willing and able to work with wages that increase as technology marches on. It insures that the free market will provide ample housing at affordable prices, for the present holders of residential land will have to provide housing or give the land to someone who will.

It not only insures that those values that can be attributed to individual and corporate productions are kept by their producers, but it collects for social purpose those values that are the creation of the community and society as a whole. Without roads and bridges, water and sewer, police and fire, the preservation of order and the administration of justice, the value of land would be a small fraction of what it is with them. What would the land in any country be worth if the nation could not defend itself against a foreign adversary? Therefore, a significant portion of land rents collected by governments must be expended in such a way that it maintains the rental value of land. Much of the land rents collected must be used to prepare for future increases in population. And, as communities and the nation evolve, this fund, which measures the synergistic results of conscious and subconscious cooperations can also provide for social security and national healthcare; it can take care of those who are physically and mentally unable to take care of themselves. It could be used for research, to pay off the national debt, and shared as a cash dividend. It eliminates poverty on one side and unearned incomes on the other.

The Single Tax.

Collect for public purpose the rental value of all privately held land. Eliminate all other taxes. Socialize those businesses that are in their nature monopolies like the roads and pipes and wires that run along them. And, eliminate all other government granted monopolies — with the possible exception of those necessary as a bounty to stimulate research and development, if government funding does not succeed. This program, the Single Tax, was most eloquently proposed by Henry George in 1879. His writings were read by millions and his thesis was endorsed and advocated by many humanitarians.

The Single Tax can be instituted gradually. Taxes can be shifted one by one from ability to pay, like income and sales taxes, to the rental value of land, which represents the value of benefits received from the government. The

easiest shift is from real-estate taxes levied on the selling price of land and buildings to the rental value of land only. Seven states and virtually all county and local governments levy real estate taxes. Although they now account for less than ten percent of total public revenue, they can easily be shifted from selling values to the rental value of land only. Once this is done, other taxes can be diminished or eliminated and the lost revenue made up by collecting more of the Potential Land-rent (rental value of land). During the transition we can increase the Minimum Wage and required benefits paid by employers, and governments can provide more Public Housing. This will enhance the lives of the lowest paid workers and all other workers by raising the minimums. At the same time, each increase in taxes on the value of land will force more valuable land into use and create more jobs or housing.

For those who have put their land to its productive potential, their tax bill will initially be less. Those who continue to hold land that is unused or significantly underused will pay more. However, when their land is developed the buildings and income from those buildings will not be taxed. From this point forward, taxes (land-rent) will only increase as the potential income from land increases. What could be more fair, and a better application of limited government?

When all the rent of privately held land is collected throughout the country there will be no need for Minimum Wage laws or other government interventions, because wages will already be everything that each worker has produced. There will be nothing else to get. All workers will receive in wages what they could have produced by utilizing the natural opportunities that are equally available to everyone. The rewards to capital (products used in production) will be the total necessary to induce their accumulation. And the people as a whole will get the rental value of land. Freedom and free-enterprise will finally deliver its promise. And the free market will determine the rental value of the people's land just as it determines the value of goods and services.