

Henry George Academy - Course in Economic Science

Principles of Political Economy - Part III

This is the third and final course in the three-part study, Principles of Political Economy. The first course, Fundamental Principles of Political Economy, based on Henry George's Progress and Poverty, outlined the basic subject matter—the production and distribution of wealth—and explained George's fundamental solution to chronic economic problems. The second course, Applied Principles of Political Economy, based on George's Protection or Free Trade and Social Problems, delved further into an application of economic principles to problems national and international. Part III, Economic Science, returns to a study of economic theory in greater depth, and is based on The Science of Political Economy, Henry George's last book (an abridged version is used in this course). The aim is an overview of the basic principles of the subject, and an examination of how some of those principles are expressed in modern economics. Following is an outline of this course:

1. The Meaning of Political Economy
2. Methods of Political Economy
3. The Nature of Wealth
4. Wealth and Value
5. Wealth, Capital and Privilege
6. The Production of Wealth
7. Cooperation and Exchange
8. The Distribution of Wealth
9. Money
10. Political Economy Today

George followed the classical approach that had been pursued for a century before his time. In the century since he wrote, many changes and developments have taken place (Including the substitution of the term "Economics" for "Political Economy"). Thus the student will be able to form a good idea of the scope of economic study.

In an earlier lecture, "The Study of Political Economy" (delivered at the University of California), Henry George stated what he felt should be the approach to this study:

Although political economy deals with various and complicated phenomena, yet they are phenomena which may be resolved into simple elements, and which are but the manifestations of familiar principles. The premises from which it makes its deductions are truths of which we are all conscious and upon which in everyday life we constantly base our reasoning and our actions ...

For the study of political economy you need no special knowledge, no extensive library, no costly laboratory... All that you need is care in reducing complex phenomena to their elements, in distinguishing the essential from the accidental, and in applying the simple laws of human action with which you are familiar. Take nobody's opinion for granted; try all things; hold fast that which is good.

In this spirit, George pursued his explorations of economic matters, right to his last work, The Science of Political Economy. His works can profitably be studied by professional economists, but George also made the study accessible to the interested and intelligent layman.

Upon satisfactory completion of this third course, the student will be awarded a certificate designating him or her as a graduate of Principles of Political Economy.

Narrative for Lesson 1: The Meaning of Political Economy

In George's view it is particularly difficult for political economy to achieve commonly accepted answers to its most basic questions, because powerful vested interests assert great influence in having the "standard questions" of political economy answered in ways that preserve their advantages.

In political economy terminology is of particular importance because many of its terms are also used with different or more general meaning in common speech. In the general sense of their meaning they communicate well enough. However, in political economy, relationships must be carefully analyzed. We must be able to create clear categories and know exactly what we are referring to.

For example, Rent in common speech means payment for any leased property (including items of wealth); in political economy, it means return for use of land only. Interest in common speech means the return on an investment or monetary loan, etc.; in political economy, it means the return from capital only.

The three factors which constitute the universe are Spirit (or mind)—that which thinks, perceives, wills; Matter—that which has mass, weight and form; Force (or energy)—that which acting on matter produces movement.

The body economic is the total of all human cooperation, directed as well as unconscious, toward the goal of satisfying desires. The body politic is the arrangement of laws and governance that regulates social affairs. The body economic is the more basic social organization; the body politic is organized later, as need arises. Henry George called the body economic the Greater Leviathan as distinguished from the Body Politic, which Thomas Hobbs, a 17th Century Philosopher, called the Leviathan. Hobbs used this symbol to promote the idea that through the social contract of people to their ruler, the nation was stronger than the sum of its individual members.

Civilization is the "body economic" which develops in the cooperation of people to supply their wants and satisfy their desires.

The power of using reason to trace cause and effect is the most important distinction between human beings and other animals.

In George's view knowledge is more important than skill to the development of civilization. He points out that knowledge can be stored and transmitted in many efficient ways, thus enabling human society to build on the discoveries and inventions of previous generations, and continually advance. Skill, however, must be learned anew by each individual and can only be stored and transmitted by individuals.

Sequence means that one thing follows another thing, and consequence means that one thing is caused by another thing that it follows. The Rooster crows and then the sun shines is only sequence—although it is sometimes fabled to be consequence. I moved the switch and the light went on is a consequence of moving the switch (closing the circuit), because there is a causal relation.

A "law of nature" is an invariable sequence: something that predictably follows from something else without exception. Examples include Newton's laws of motion (1) Every object moves in a straight line unless acted upon by a force. (2) The acceleration of an object is directly proportional to the net force exerted and inversely proportional to the object's mass. (3) For every action, there is an equal and opposite reaction; the principle that people seek to satisfy their desires with the least exertion.

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Political economy is a science because it seeks natural laws that explain the phenomena it investigates.

In political economy it is especially important to distinguish between natural laws and human laws because human laws can be changed by people, and must be actively enforced; natural laws are immutable (unchanging and unable to be changed). They are the invariable recurrence of phenomena under the same circumstances. Because the two phenomena are fundamentally different, confounding them makes clear analysis impossible.

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Questions for Lesson 1: The Meaning of Political Economy

Please read the Introduction, Part I, Chapters 1 - 7, and “Skill and Knowledge”

1. In George’s view, why is it particularly difficult for political economy to achieve commonly accepted answers to its most basic questions? (intro)

2. a) Why is terminology of particular importance in political economy?

b) Give examples of terms that differ in meaning in common speech and in political economy. (intro)

3. Name and define the three factors which constitute the universe. (I,1)

4. Explain the difference between body economic and body politic. Why does George say the “body economic” comes first? (I,2)

5. What is civilization? (I,3)

6. According to George, what is the most important distinction between human beings and other animals? (I,4)

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7. Why does George view knowledge to be more important than skill to the development of civilization? (I,5 and sup.)

8. Give an example of misunderstanding that is caused by the confusion of sequence and consequence. (I,6)

9. What is a “law of nature”? Give two or more examples. (I,6)

10. What makes political economy a science? (I,7)

11. In political economy, why is it especially important to distinguish between natural law and human law? (I,7)

Answers to Lesson 1: The Meaning of Political Economy

1. In George's view, why is it particularly difficult for political economy to achieve commonly accepted answers to its most basic questions? (intro) **Ans.** Because powerful vested interests wish the "standard questions" to be answered in ways that preserve their advantages.
2. a) Why is terminology of particular importance in political economy? **Ans.** Because many of its terms are used in common speech, in which a general "sense" of their meaning is enough. In order to clearly analyze economic relationships, we must be able to create clear categories and know exactly what we are referring to.
b) Give examples of terms that differ in meaning in common speech and in political economy. (intro) **Ans.** b) Rent in common speech means payment for any leased property (including items of wealth); in political economy, it means return for use of land only. Interest in common speech means return on investment, monetary loan, etc.; in political economy, it means return for use of capital only.
3. Name and define the three factors which constitute the universe. (1,1) **Ans.** Spirit (or mind) - that which thinks, perceives, wills. Matter - that which has mass, weight and form. Force (or energy) - that which acting on matter produces movement.
4. Explain the difference between body economic and body politic. Why does George say the "body economic" comes first? (1,2) **Ans.** The body economic is the "greater leviathan", the grand total of all human cooperation, directed and unconscious, toward the goal of satisfying desires. The body politic is the arrangement of laws and governance that regulates social affairs. The body economic is the more basic social organization; the body politic is organized later, as need arises.
5. What is civilization? (1,3) **Ans.** It is the "body economic" which develops in the cooperation of people to supply their wants and satisfy their desires.
6. According to George, what is the most important distinction between human beings and other animals? (1,4) **Ans.** The power of using reason to trace cause and effect.
7. Why does George view knowledge to be more important than skill to the development of civilization? (1,5 and sup.) **Ans.** According to George, knowledge is the more important because it can be stored and transmitted in many efficient ways, thus enabling human society to continually advance. Skill, however, must be learned anew by each individual and can only be stored and transmitted by individuals.
8. Give an example of misunderstanding that is caused by the confusion of sequence and consequence. (1,6) **Ans.** I had a certain stone in my pocket the day I won the lottery. Therefore, it must be a lucky stone!
9. What is a "law of nature"? Give two or more examples. (1,6) **Ans.** An invariable sequence: something that predictably follows from something else. Examples include the law of gravity, Newton's laws of motion, Mendel's law dealing with the recurrence of hereditary characteristics, the principle that people seek to satisfy their desires with the least exertion.
10. What makes political economy a science? (1,7) **Ans.** Because it seeks, and finds, natural laws that explain the phenomena it investigates.
11. In political economy, why is it especially important to distinguish between natural law and human law? (1,7) **Ans.** Human laws are changeable at will and must be actively enforced; natural laws are immutable. Because the two phenomena are fundamentally different, confounding them makes clear analysis impossible.

Narrative for Lesson 2:

Methods of Political Economy

Political economy not primarily concerned with the body politic because the body politic's function is to create and enforce human laws. The main subject of investigation in political economy is natural law.

Political economy does not deal with questions that arise within a single family because the family is seen as the economic unit of consumption.

Political economy does not concern itself with the kinds of desires that people seek to satisfy. "Political economy is not a moral or ethical science, nor yet is it a political science. ". . . political economy is directly concerned with the natural laws that govern the production and distribution of wealth.

The two fundamental elements of political economy are human beings and nature.

In the production and distribution of wealth the originating motive is Human will, prompted by desire.

The means employed to satisfy human desires are the materials and forces of nature.

The end sought is the satisfaction of desires

People do not add to or subtract from the sum of matter and energy in the universe. This question is relevant to the science of political economy because human beings cannot rid themselves of their dependence on natural opportunities, and the limitations of space and time.

By long and careful observation of human behavior we can know that human desires are unlimited.

In George's view the fundamental law of economic analysis is "that people seek to satisfy their desires with the least exertion". This is different from the principle of "universal selfishness", which makes a judgment about what sort of desires are prevalent. The principle that people seek to satisfy their desires with the least exertion does not. Whether our desires are selfish or unselfish, we still seek to use the least exertion in satisfying them.

When induction (extensive observation) has clearly established a law of nature, it is then appropriate to use a deductive method in political economy. For example, extensive observation tells us (through the **inductive** method) that people seek to gratify their desires with the least exertion. From that principle, once established, we can use the **deductive** method (reasoning) to conclude that people will only trade if they receive something they want more than that which they give.

In political economy the phenomena which it investigates are too various and complex to allow observation of all the relevant variables. Therefore, it cannot rely entirely on the inductive method, but must often use the deductive method.

Imaginative experiment is the great working tool of political economy. We test the working of known principles by mentally working through the effects of certain changes.

George believed there was no such thing as an "art of political economy". Science deals with natural laws and art with the applications of natural laws to practical ends. Political economy is the study of the natural laws governing the nature of, the production, and the distribution of wealth and not the application of these laws. These applications would constitute part of politics and government, which are entirely man-made institutions. Land value taxation is thus an "art", i.e., one application of the community collection of rent.

George facetiously calls a "black art" those forms of applied economics that are employed to give support to existing injustices.

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Questions for Lesson 2: Methods of Political Economy

Please read Part I, Chapters 8 - 12

1. Why is political economy not primarily concerned with the body politic? (I,8)
2. Does political economy deal with questions that arise within a single family? (I,8)
3. Does political economy concern itself with the kinds of desires that people seek to satisfy? Explain. (I,8)
4. What are the two fundamental elements of political economy? (I,9)
5. In the production and distribution of wealth, what is: a) the originating motive?
b) the means employed?
c) the end sought? (I,9)
6. Do people add to or subtract from the sum of matter and energy in the universe? _____.
Why is this question relevant to the science of political economy? (I,9)
7. How do we know that human desires are unlimited? (I,10)

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8. In George's view, the fundamental law of economic analysis is that people seek to satisfy their desires with the least exertion. How does this differ from the "assumption of universal selfishness" as a fundamental principle? (I,10)

9. When is it appropriate to use a deductive method in political economy? (I,11)

10. a) What is wrong with using an entirely inductive method in political economy? (I,11)

b) What is the "great working tool" of political economy?

11. Why does George believe there is no such thing as an "art of political economy"? (I,12)

Answers to Lesson 2:

Methods of Political Economy

1. Why is political economy not primarily concerned with the body politic? (1,8) **Ans.** Because the body politic's function is to create and enforce human laws, and the main subject of investigation in political economy is natural law.
2. Does political economy deal with questions that arise within a single family? (1,8) **Ans.** No, because the family is seen as the economic unit of consumption.
3. Does political economy concern itself with the kinds of desires that people seek to satisfy? Explain. (1,8) **Ans.** No. "Political economy is not a moral or ethical science, nor yet is it a political science." ". . . it is directly concerned only with the natural laws that govern the production and distribution of wealth."
4. What are the two fundamental elements of political economy? (1,9) **Ans.** Human beings and nature.
5. In the production and distribution of wealth, what is: a) the originating motive? a. Human will, prompted by desire.
b) the means employed? **Ans.** b. The materials and forces of nature.
c) the end sought? (1,9) **Ans.** c. The satisfaction of desires.
6. Do people add to or subtract from the sum of matter and energy in the universe? Why is this question relevant to the science of political economy? (1,9) **Ans.** No. The relevance is that human beings cannot rid themselves of their dependence on natural opportunities, and the limitations of space and time.
7. How do we know that human desires are unlimited? (1,10) **Ans.** By observing human behavior.
8. In George's view, the fundamental law of economic analysis is that people seek to satisfy their desires with the least exertion. How does this differ from the "assumption of universal selfishness" as a fundamental principle? (1,10) **Ans.** The principle of "universal selfishness" makes a judgment about what sort of desires are prevalent. The principle that people seek to satisfy their desires with the least exertion does not. Whether our desires are selfish or unselfish, we still seek to use the least exertion in satisfying them.
9. When is it appropriate to use a deductive method in political economy? (1,11) **Ans.** When induction has clearly established a law of nature.
10. a) What is wrong with using an entirely inductive method in political economy? (1,11) **Ans.** The phenomena are too various and complex to allow observation of all the relevant variables.
b) What is the "great working tool" of political economy? **Ans.** Imaginative experiment, by which we test the working of known principles by mentally working through the effects of certain changes.
11. Why does George believe there is no such thing as an "art of political economy"? (1,12) **Ans.** Science deals with natural laws and art with the applications of natural laws to practical ends. Political economy is the study of the natural laws governing the nature, production and distribution of wealth and not the application of these laws. These applications would constitute part of politics and government, which are entirely man-made institutions. Land value taxation is thus an "art", i.e., one application of the community collection of rent. George facetiously calls a "black art" those forms of applied economics that are employed to give support to existing injustices.

Narrative for Lesson 3: The Nature of Wealth

It is very important to clearly define wealth, because the word “wealth” is very commonly used, and in many different senses, which depend on the context. In political economy, which is the study of aggregate (total) or social wealth, the term must be precisely and consistently defined.

The acceptance of an error in political economy leads to a baffling complexity in a philosophical system. This happens because new structures must be imposed to adapt other parts of the system to the incongruity (out of keeping).

The difference between wealth to the individual and wealth to the society is that wealth to the individual is anything which gives to its possessor command of external things which satisfy desire (even though it may involve instruments that enable taking things from others). Wealth to society can only be those things which add to the total of material goods in society.

The essential error in the Physiocrats’ analysis of political economy was that they believed that agriculture, because it makes use of the reproductive powers of nature, is the only truly productive occupation.

According to George, Adam Smith’s work was more influential than that of Francois Quesnay (the Physiocrat) because, although Smith was critical of the unearned benefits of mercantilism, he did less to threaten powerful vested interests.

In the 19th century political economy was a growing field of academic study, and there were many opportunities to publish books and occupy university chairs in its field, but George cites as the most important reason why political economy failed to develop a coherent theory, was that there was little incentive to criticize social institutions.

The popularity of Progress and Poverty caused a “breakdown” of scholastic political economy by providing an accessible, logical critique of the major errors and inconsistencies in the discipline. It was far more popular than other economic works, and it was easier to read. George believed that the teaching of economics was modified in order to fight the influence of Progress and Poverty. Over a century later, Prof. Mason Gaffney’s research led to the same conclusion, which we will explore later in the course.

There are many examples of things with high use value but little exchange value. For example, Air, water, salt, paper. There are also many things with high exchange value but little use value. For example, Jewelry, antiques, art objects.

Political economy is concerned with things that have a value in exchange, because political economy deals with this kind of value, and it is necessary to use words in one sense only. Because political economy is a social science, we use the social meaning of the term—value in exchange.

Human exertion is the real source and natural measure of all value. Value is related to exertion in a negative way: a thing is valuable to the extent that it saves the owner exertion, or allows the owner to compel others to undergo exertion on his or her behalf.

The only mechanism for determining value is the competition or the higgling of the market.

Value in exchange can be created, where there was none before, by converting labor, through exertion, into wealth or services.

Student _____

Lesson 3: The Nature of Wealth

Please read Part II, Chapters 1 - 8

1. Why is it so important to clearly define “wealth”? (II,1)
2. How does the acceptance of an error lead to baffling complexity in a philosophical system? (II,2)
3. What is the difference between wealth to the individual and wealth to the society? (II,3)
4. What was the essential error in the Physiocrats’ analysis of political economy? (II,3)
5. According to George, why was Adam Smith’s work more influential than that of Francois Quesnay? (II,3)
6. What does George cite as the most important reason why 19th century political economy failed to develop a coherent theory? (II,5)

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7. Why did the popularity of Progress and Poverty cause a “breakdown” of scholastic political economy? (II,6)

8. Give some examples of: a) things with high use value but little exchange value

b) things with high exchange value but little use value. (II,7)

9. With which kind of value is political economy concerned? (II,7)

10. a) What is the real source and natural measure of all value?

b) What is the only mechanism for determining value? (II,8)

11. How can value be created, where there was none before? (II,8)

Answers to Lesson 3: The Nature of Wealth

1. Why is it so important to clearly define “wealth”? (II,1) **Ans.** Because the word “wealth” is very commonly used, and in many different senses, which depend on the context. In political economy, which is the study of aggregate or social wealth, the term must be precisely and consistently defined.
2. How does the acceptance of an error lead to baffling complexity in a philosophical system? (II,2) **Ans.** Because new structures must be imposed to adapt other parts of the system to the incongruity.
3. What is the difference between wealth to the individual and wealth to the society? (II,3) **Ans.** Wealth to the individual is anything which gives to its possessor command of external things which satisfy desire (even though it may involve instruments that enable taking things from others). Wealth to society can only be those things which add to the total of material goods in society.
4. What was the essential error in the Physiocrats’ analysis of political economy? (II,3) **Ans.** They believed that agriculture, because it makes use of the reproductive powers of nature, is the only truly productive occupation.
5. According to George, why was Adam Smith’s work more influential than that of Francois Quesnay? (II,3) **Ans.** Because, although he was critical of the unearned benefits of mercantilism, he did less to threaten powerful vested interests.
6. What does George cite as the most important reason why 19th century political economy failed to develop a coherent theory? (II,5) **Ans.** Political economy was a growing field of academic study. There were many opportunities to publish books and occupy university chairs in the discipline, but little incentive to criticize social institutions.
7. Why did the popularity of Progress and Poverty cause a “breakdown” of scholastic political economy? (II,6) **Ans.** It provided an accessible, logical critique of the major errors and inconsistencies in the discipline. It was far more popular than other economic works, and it was easier to read. George believed that the teaching of economics was modified in order to fight the influence of Progress and Poverty. Over a century later, Prof. Mason Gaffney’s research led to the same conclusion, which we will explore later in the course.
8. Give some examples of: a) things with high use value but little exchange value. **Ans.** a) Air, water, salt, paper.
b) things with high exchange value but little use value. (II,7) **Ans.** Jewelry, antiques, art objects.
9. With which kind of value is political economy concerned? (II,7) **Ans.** Value in exchange, because political economy deals with this kind of value, and it is necessary to use words in one sense only. Because political economy is a social science, we use the social meaning of the term—value in exchange.
10. a) What is the real source and natural measure of all value? **Ans.** Human exertion. Value is related to exertion in a negative way: a thing is valuable to the extent that it saves the owner exertion, or allows the owner to compel others to undergo exertion on his or her behalf.
b) What is the only mechanism for determining value? (II,8) **Ans.** Competition or the higgling of the market.
11. How can value be created, where there was none before? (II,8) **Ans.** By converting labor power, through exertion, into wealth or services.

Narrative for Lesson 4: Wealth and Value

Material progress (inventions, innovations, and new discoveries, infrastructure, public service, and the total of skill and knowledge) tends to increase the total value of wealth in a community because it increases the results of labor faster than consumption and depreciation (loss of value) diminish it.

By allowing more wealth to be produced with the same amount of labor, it tends to decrease the value of individual articles of wealth. That is to say, articles of wealth are less valuable because they cost less to produce.

The value of a thing cannot be determined by any intrinsic quality of a thing because the essential economic quality of a thing is the desire for it by a prospective buyer, plus its availability (willingness of the possessor to part with it).

The reason items of wealth are equal to their cost of re-production is that no one would buy something made in the past unless they could get it for the same price as one made in the present. Just as no one would sell an item of wealth made in the past for less than it cost to produce it in the present. As automation reduces the cost of making computers their value goes down, even though their performance goes up. Minerals that were mined at a cheaper cost in the past now sell for the current cost of production. Therefore, the value of things that can be produced will tend to equal to their cost of re-production.

Things that cannot be reproduced will attain a value that may rise to any height that buyers are willing to pay. Very high bids at art auctions illustrate this.

The most common application of that principle is the market for land.

Because land is necessary for all for production, and for sustaining life itself, land is the most important of all values from obligation. The value of land always increases with the growth of population and productivity.

Of all exchangeable things, money is most readily exchanged for exertion; wages are most commonly paid in money. If labor refuses to accept notes as payment of wages, those notes cease to be money.

There are many valuable things whose value arises from obligation. They include various forms of slave labor, including indentured labor and debt bondage. They include various forms of monopoly, including franchises, patents, tariff protection. They include paper money, and land titles.

There is no difference between values from production and values from obligation to the individual (in an individual economy).

In a political economy the creation of value from production increases the overall stock of things that can satisfy human desires. The creation of value from obligation does not; in some cases it can even decrease aggregate (total) wealth. For example, if protective tariffs creates values from obligation in the increased prices of the protected goods—then by increasing the prices of those goods, it will lower overall production.

The Austrian theory of value holds that value is subjective, depending entirely on the utility to the consumer. This implies that there is no “general market” apart from individual transactions—and therefore, the economy should be utterly free of any intervention or restriction.

In Marxist theory value represents the amount of labor time that is embodied in a commodity. Marxists say Goods produced under capitalism have “surplus value” which represents the exploitation of labor. In a socialist economy, they say that calculations of value based on labor time would enable the creation of a planned economy that was efficient.

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Questions for Lesson 4: Wealth and Value

Please read Part II, Chapters 9 - 10 and "Why are Theories of Value Important?"

1. Does material progress tend to increase or decrease the following: a) the total value of wealth in a community?

b) the value of individual articles of wealth? (II,9)

2. Can the value of a thing be determined by any intrinsic quality of the thing? (II,9)

3. Why does the cost of reproduction, not the cost of original production, determine a thing's value? (II,9)

4. a) What determines the price of an item that cannot be reproduced?

b) What is the most common application of that principle? (II,9)

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5. Why is land value the most important of all values from obligation? (II,9)

6. How does the use of money as a medium of exchange illustrate the true source and measure of value? (II,10)

7. Give examples of things whose value arises from obligation. (II,10)

8. What is the difference between value from production and value from obligation a) in individual economy?

b) in political economy? (II,10)

9. a) Give a brief outline of the Austrian theory of value. (sup)

b) Give a brief outline of the Marxist theory of value. (sup)

Answers to Lesson 4: Wealth and Value

1. Does material progress tend to increase or decrease the following: a) the total value of wealth in a community? **Ans.** a) It tends to increase the total value of wealth, because it makes it possible for the same amount of labor to produce more wealth.
b) the value of individual articles of wealth? (II,9) **Ans.** b) By allowing more wealth to be produced with the same amount of labor, it tends to decrease the value of individual articles of wealth.
2. Can the value of a thing be determined by any intrinsic quality of the thing? (II,9) **Ans.** No. The essential economic quality of a thing is the desire for it by a prospective buyer, plus its availability (willingness of the possessor to part with it).
3. Why does the cost of reproduction, not the cost of original production, determine a thing's value? (II,9) **Ans.** No matter what an item of wealth originally cost, it would not now be sold for less than its cost of present production (i.e, cost of reproduction), and it would not be bought for more than its present cost of production.
4. a) What determines the price of an item that cannot be reproduced? **Ans.** a) Since such items cannot be reproduced, their value may rise to any height that buyers are willing to pay. Very high bids at art auctions illustrate this.
b) What is the most common application of that principle? (II,9) **Ans.** b) The market for land.
5. Why is land value the most important of all values from obligation? (II,9) **Ans.** Because land is necessary for all for production, and for sustaining life itself — and, land's value always increases with the growth of population and productivity.
6. How does the use of money as a medium of exchange illustrate the true source and measure of value? (II,10) **Ans.** Of all exchangeable things, money is most readily exchanged for exertion; wages are most commonly paid in money. If labor refuses to accept notes as payment of wages, those notes cease to be money.
7. Give examples of things whose value arises from obligation. (II,10) **Ans.** Various forms of slave labor, including indentured labor and debt bondage. Various forms of monopoly, including franchises, patents, tariff protection, and land titles.
8. What is the difference between value from production and value from obligation a) to the individual (in individual economy)? **Ans.** a) None at all.
b) in political economy? (II,10) **Ans.** b) The creation of value from production increases the overall stock of things that can satisfy human desires. The creation of value from obligation does not; in some cases it can even decrease aggregate wealth. For example, if protective a tariff creates values from obligation in the increased prices of the protected goods—but, by increasing the prices of those goods, it will lower overall production.
9. a) Give a brief outline of the Austrian theory of value. (sup) **Ans.** a) Austrian theory holds that value is subjective, depending entirely on utility to the consumer. This implies that there is no “general market” apart from individual transactions—and therefore, the economy should be utterly free of any intervention or restriction.
b) Give a brief outline of the Marxist theory of value. (sup) **Ans.** b) In Marxist theory value represents the amount of labor time that is embodied in a commodity. Goods produced under capitalism have “surplus value”

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which represents the exploitation of labor. In a socialist economy, calculations of value based on labor time would theoretically enable the creation of an efficient planned economy.

Narrative for Lesson 5: Wealth, Capital and Privilege

Wealth is the primary subject of the science of political economy. But, by long tradition, the term “wealth” has been used to mean “anything that has value”. Because of this, the individual economy and political economy were lumped together, confounding the analysis of economic problems affecting the production and distribution of wealth. Therefore, it necessary to fix the meaning of the term “value” before fixing the definition of “wealth”.

The embodiment or storage in material form of an action whose goal is the satisfaction of desire is the essential character of wealth.

Wealth is service in material form. Possessing wealth saves a person from having to perform the labor that is embodied in the wealth—forming the relationship between wealth and service.

Capital is that part of wealth that is devoted to production of other wealth for exchange. It is a subset of the overall category of wealth, which indicates its function in political economy.

In ordinary speech, “capital” is generally used to mean any thing that yields an income. It includes products that are used to produce more products for exchange—and it also includes money, land, or other monopolies. By investing in education and training, people are sometimes said to have invested in “human capital”. Land is sometimes termed “natural capital”. In Political economy the latter two are a contradiction in terms.

Things whose value arises from obligation are not part of capital in political economy. This is important because an increase in values from obligation do not increase the overall amount of wealth. It is only through production that human desires can be satisfied.

By George’s definition of “rich” and “poor” a person is rich who can command more service than he or she is called upon to render; and a person is poor who is forced to give more service than he gets.

Items of wealth are material and subject to decay; labor must be applied to them in order to preserve their value. Values from obligation exist in the human mind, and can be passed on without any decay. Therefore, values arising from obligation generally more enduring than those arising from production.

Collecting the rent of land is a privilege in which the value has increased more broadly and constantly than to any other valuable thing.

The value of articles of wealth tends to decrease because improvements in the arts (methods) of production, and greater divisions of labor, allow more wealth to be produced by the same amount of labor. At the same time, these tendencies increase the value of land and other privileges that are needed or useful for production. For example: new technology makes it cost less to broadcast programs over the radio—but the increase in population increases the value of the license that allows a broadcaster to monopolize a particular frequency.

Student _____

Questions to Lesson 5: Wealth, Capital and Privilege

Please read Part II, Chapters 11 - 16

1. Why was it necessary to fix the meaning of the term “value” before the definition of “wealth” could be properly understood? (II,11)

2. What is the essential character of wealth? (II,12)

3. What is the relationship of wealth and service? (II, 12)

4. a) What is the meaning of capital in political economy?

b) What are some different senses in which the word “capital” is used in ordinary speech? (II, 13)

5. Are things whose value arises from obligation part of capital? Why is this important to the study of political economy? (II,13)

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6. What are George's definitions of "rich" and "poor"? (II, 15)
7. Why are values arising from obligation generally more enduring than those arising from production? (II, 16)
8. To what privilege has the value increased more broadly and constantly than to any other valuable thing?
9. Why is it that the value of articles of wealth tends to decrease, while the value of privileges tends to increase with social advance? (II,16)

Answers to Lesson 5: Wealth, Capital and Privilege

1. Why was it necessary to fix the meaning of the term “value” before the definition of “wealth” could be properly understood? (II, 11) **Ans.** Wealth is the primary subject of the science of political economy. But, by long tradition, term “wealth” has been used to mean “anything that has value”. Because of this, individual economy and political economy were lumped together, confounding the analysis of economic problems affecting production and distribution.
2. What is the essential character of wealth? (II, 12) **Ans.** The embodiment or storage in material form of an action whose goal is the satisfaction of desire.
3. What is the relationship of wealth and service? (II, 12) **Ans.** Wealth is service in material form. Possessing wealth saves a person from having to perform the labor that is embodied in the wealth.
4. a) What is the meaning of capital in political economy? **Ans.** a) Capital is that part of wealth that is devoted to production of other wealth for exchange. It is a subset of the overall category of wealth.
b) What are some different senses in which the word “capital” is used in ordinary speech? (II, 13) **Ans.** b) There are many: Generally, “capital” is used to mean any thing or attribute that can be invested and yield an income. Things held for investment are termed capital, though they may include money, or land, sometimes called natural capital. By investing in education and training, people are said to invest in “human capital”.
5. Are things whose value arises from obligation part of capital? Why is this important to the study of political economy? (II, 13) **Ans.** They are not. It is important because an increase in values from obligation cannot increase the overall amount of wealth. It is only through production that human desires can be satisfied.
6. What are George’s definitions of “rich” and “poor”? (II, 15) **Ans.** A person is rich who can command more service than she is called upon to render; a person is poor who is forced to give more service than he gets.
7. Why are values arising from obligation generally more enduring than those arising from production? (II, 16) **Ans.** Items of wealth are material and subject to decay; labor must be applied to them in order to preserve their value. Values from obligation exist in the human mind, and can be passed on without any decay.
8. To what privilege has the value increased more broadly and constantly than to any other valuable thing? (II, 16) **Ans.** That of collecting the rent of land.
9. Why is it that the value of articles of wealth tends to decrease, while the value of privileges tends to increase with social advance? (II, 16) **Ans.** The value of articles of wealth tends to decrease because improvements in the arts of production, and greater division of labor, allow more wealth to be produced with the same amount of labor. But, these tendencies increase the value of land and other privileges that are needed or useful for production. For example: technology makes it cost less to broadcast programs over the radio — but economic growth raises the value of the license that allows a broadcaster use a particular frequency.

Narrative for Lesson 6: The Production of Wealth

Please read Part III, Chapters 1 - 6

In political economy, production includes the changing of natural materials, in form or in place, so as to better suit them for the satisfaction of human desires. Transportation and exchange, are therefore, part of production. Anything that helps to get a natural resource to the final consumer in the desired form is part of production.

Adapting, growing, and exchanging are the three modes of production in the order in which that they naturally arise.

George placed much stress in correcting the mistakes expressed in the belief that the law of diminishing returns applied only to agriculture. The “law of diminishing returns in agriculture” was seen as supporting the contentions of Malthus and Ricardo that overpopulation was always a danger, and with the increase in population wages would always decline. In fact, the law of diminishing returns applies to all production—it is a “spatial law of all material existence and movement”. And those who expressed it had a tendency to forget that the law applies to a given place and time. Therefore, the point of diminishing returns can be raised by changes in the arts (methods) of production. These include farming methods, elevators, compact machinery etc.

Because wealth is a physical product, whose production must take place in space and time, it is necessary to consider the meanings of space and time in political economy.

Space is a relation of extension between things in place; e.g., far and near.

Time is a relation of succession between things in order of appearance and duration; e.g., before and after.

The idea that land is important only as a place to grow food, rather than as a necessary factor of all production, is a fallacy in regard to the nature of land that has long persisted among economists.

All production takes place in space, and there is a limit to what can be done in a given amount of space, within a given mode of production. There is a maximum point of productivity, beyond which there are diminishing returns. Eventually, people and things start to get in each other’s way. However, improvement in the arts (methods) of production can, by increasing productivity, raise the point at which returns diminish.

In an orchard, each tree requires a certain optimum amount of space, and if trees are crowded together beyond that point, the yield diminishes. Or, in an assembly plant, space has to be carefully allocated for maximum efficiency. Overcrowding yields diminishing returns.

Careful analysis of the point of diminishing returns in each part of the productive process leads to efficient allocation of each factor of production; this leads to the most profitable combination of lowered costs and increased output.

Modern economists pay much attention to “marginal analysis”—the overall effect of adding or subtracting one further unit of a productive factor. George explains the basic process of marginal analysis in his example of how one chooses the optimum height of a pile of bricks.

In an assembly line there is an optimum rate for maximum productivity. Attempts to speed up the process any further, cause mistakes, bottlenecks, and reduced results. Therefore, there is a law of diminishing returns in time as well as in space.

Student _____

Questions for Lesson 6: The Production of Wealth

Please read Part III, Chapters 1 - 6

1. What is production, in political economy? Are transportation and exchange part of production? (III,1)

2. Name and define the three modes of production, in the order that they naturally arise. (III,2)

3. Why did George place so much stress in correcting the mistake expressed in “the alleged law of diminishing returns in agriculture”? What was the mistake? (III,3)

4. Why is it necessary to consider the meanings of space and time in political economy? (III,4)

5. a) What kind of relation is space?

- b) What kind of relation is time? (III,4)

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6. What fallacy as to the nature of land has persisted among economists? (III,5)
7. a) Explain why there are diminishing returns beyond a point of maximum productivity in all forms of production.
- b) Illustrate the law of diminishing returns with an example from some form of production. (III,5)
8. How is the principle of diminishing returns used to make profit maximizing decisions? (III,5)
9. Is there a law of diminishing returns in time as well as in space? Illustrate. (III,

Answers to Lesson 6: The Production of Wealth

Please read Part III, Chapters 1 - 6

1. What is production in political economy? Are transportation and exchange part of production? (III,1)

Ans. It is the changing of natural materials, in form or in place, so as to better suit them to satisfy human desires. The process of production includes transportation and exchange, right up until the good reaches its final consumer.

2. Name and define the three modes of production, in the order that they naturally arise. (III,2) **Ans.**

Adapting, growing and exchanging.

3. Why did George place so much stress in correcting the mistake expressed in “the alleged law of diminishing returns in agriculture”? What was the mistake? (III,3) **Ans.** The “law of diminishing returns in agriculture” was seen as supporting the contentions of Malthus and Ricardo that overpopulation was always a danger, and wages would always decline. The first mistake was that the law applied only to agriculture. In fact, it is a “spatial law of all material existence and movement”. It applies to all modes of production. The second mistake was the tendency to forget that the law applies to a given place and time, and that the point of diminishing returns can be raised by improvements in the arts (methods and machinery) of production.

4. Why is it necessary to consider the meanings of space and time in political economy? (III,4) **Ans.**

Because wealth is a physical product, whose production must take place in space and time.

5. a) What kind of relation is space? **Ans.** a) Space is a relation of extension between things in place; e.g., far and near.

b) What kind of relation is time? (III,4) **Ans.** b) Time is a relation of succession between things in order of appearance and duration; e.g., before and after.

6. What fallacy as to the nature of land has persisted among economists? (III,5) **Ans.** The idea that land is important only as a place to grow food, rather than as a necessary factor of all production.

7. a) Explain why there are diminishing returns beyond a point of maximum productivity in all forms of production. **Ans.** a) All production takes place in space, and there is a limit to what can be done in a given amount of space, with a given mode of production. A maximum point of productivity is reached, beyond which there are diminishing returns. Eventually, people and things start to get in each other’s way. However, improvement in the arts of production can, by increasing productivity, raise the point at which diminishing returns begin.

b) Illustrate the law of diminishing returns with an example from some form of production. (III,5) **Ans.**

b) In an orchard, each tree requires a certain optimum amount of space, and if trees are crowded together beyond that point, the yield diminishes. Or, in an assembly plant, space has to be carefully allocated for maximum efficiency. Overcrowding yields diminishing returns.

8. How is the principle of diminishing returns used to make profit maximizing decisions? (III,5) **Ans.**

Careful analysis of the point of diminishing returns in each part of the production process leads to efficient allocation of the factors of production; this will lead to the most profitable combination of lowered production cost and increased output. Modern economists pay much attention to “marginal analysis”—the overall effect of adding or subtracting one further unit of a productive factor. George explains the basic process of marginal analysis in his example of how one chooses the optimum height of a pile of bricks.

9. Is there a law of diminishing returns in time as well as in space? Illustrate. (III, **Ans.** There is. For example: In an assembly line there is an optimum rate for maximum productivity. Attempts to speed up the process any further results in mistakes, bottlenecks and reduced results.

Narrative for Lesson 7: Cooperation and Exchange

Please read Part III, Chapters 7 - 10 and “Competition”

Cooperation may take place in two ways: By combination of effort (such as many people working together to lift a log or raise a barn) or by separation of effort, also called the “division of labor” where each person does a different job toward a common objective (such as an assembly line in a factory).

Running a factory, operating a ship or a military maneuver, or staging a musical theater production are examples of activities which benefit from directed cooperation.

When one considers the total activities of the community, it is easy to see that they are too large and complex to be consciously directed and managed by one controlling will. Whereas, the spontaneous cooperation of independent wills, each responding to the demands of the market (for their own benefit) are far more efficient at fulfilling the needs and wants of the whole community. There are specialized groups focused on specific products, as in George’s example of ship building, that operate with directed cooperation, but in reaction to the market.

Human beings are the only animals that cooperate by exchanging—giving up things they want in order to obtain things they want more.

When land speculation (idle and underused land) causes a shortage job opportunities, the competition to get the remaining jobs (like getting a seat in musical chairs) drives wages to a minimum. Therefore, it is often assumed that competition, rather than land speculation, causes low wages.

When there is an abundance of job opportunities, competition does not reduce wages, but directs each worker to produce the things they produce best, gives them the highest reward for their efforts, and maximizes the total productions of the community.

Subsidies, protective tariffs, patents, and copyrights, or regulations, taxes, and license fees give big business (large volume producers) an advantage and reduce competition in the goods market.

Labor unions, requirements for training certifications, academic diplomas, and professional licenses like those required to be doctors and lawyers reduce competition in the labor market.

Desire is simply wanting something; demand is desire backed with something of value to exchange for it.

The law of supply and demand follows from the fundamental axiom of human nature “that people seek to satisfy their desire with the least exertion”.

Capital is the product of labor applied to land. There can be production without it, and at some point in the past, production must have taken place without the aid of capital, or there would be no capital. Labor produces and uses capital in order to increase the efficiency of labor.

Properly defined in the science of political economy, capital is not a person, or a class of people, but a thing: wealth that is produced by labor and used to increase the results of labor. This principle holds true, even when we speak of capitalists and laborers. Capitalists, as such, do nothing with their capital. It is labor that employs (utilizes or operates) capital. Therefore, in the economic sense, and contrary to common usage, a capitalist does not “employ” labor, but merely contracts with (hires) labor to employ capital.

Student _____

Questions for Lesson 7: Cooperation and Exchange

Please read Part III, Chapters 7 - 10 and “Competition”

1. What are the two ways in which cooperation may take place? Give an example of each. (III,7)
2. Give examples of activities which benefit from directed cooperation. (III,8)
3. Why cannot directed cooperation be applied to the total activities of a community? (III,8)
4. What act of cooperation is seen only among human beings? (III,9)
5. Why is it so often assumed that competition is an evil? (III,9; Sup.)
6. When there is an abundance of job opportunities could competition reduce wages to a bare subsistence?

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7. a) List some ways in which competition is commonly reduced in the goods market.

b) List some ways in which competition is commonly reduced in the labor market

8. a) What is the difference between “desire” and “demand”?

b) The law of supply and demand follows from what fundamental axiom of human nature?

9. How do we know that production could take place without the aid of capital? (III,10)

10. What is the fallacy in the common assertion that “capital employs labor?” (III,10)

Answers to Lesson 7: Cooperation and Exchange

Part III, Chapters 7 - 10 and “Competition”

1. What are the two ways in which cooperation may take place? Give an example of each. (III,7)
Cooperation may take place in two ways: By combination of effort (such as many people working together to lift a log or raise a barn) or by separation of effort, also called the “division of labor” where each person does a different job toward a common objective (such as an assembly line in a factory).
2. Give examples of activities which benefit from directed cooperation. (III,8) Running a factory, operating a ship or a military maneuver, or staging a musical theater production are examples of activities which benefit from directed cooperation.
3. Why cannot directed cooperation be applied to the total activities of a community? (III,8) **Ans.** When one considers the total activities of the community, it is easy to see that they are too large and complex to be consciously directed and managed by one controlling will. Whereas, the spontaneous cooperation of independent wills, each responding to the demands of the market (for their own benefit) are far more efficient at fulfilling the needs and wants of the whole community. There are specialized groups focused on a single product, as in George’s example of ship building, that operate with directed cooperation, but in reaction to the market.
4. What act of cooperation is seen only among human beings? (III,9) **Ans.** Human beings are the only animals that exchange—giving up things they want in order to obtain things they want more.
5. Why is it so often assumed that competition is an evil? (III,9; Sup.) **Ans.** When land speculation (idle and underused land) causes a shortage job opportunities, the competition to get the remaining jobs (like getting a seat in musical chairs) drives wages to a minimum. Therefore, it is often believed that competition, rather than the land speculation, causes low wages.
6. When there is an abundance of job opportunities could competition reduce wages to a bare subsistence? No. When there is an abundance of job opportunities, competition directs each worker to produce the thing they produce best—gives them the highest reward for their efforts, and maximizes the total productions of the community.
7. a) List some ways in which competition is commonly reduced in the goods market. **Ans.** a) Subsidies, protective tariffs, patents, and copyrights, or regulations, taxes, and license fees that give big business (large volume producers) an advantage.
b) List some ways in which competition is commonly reduced in the labor market. **Ans.** b) Labor unions, requirements for training certifications, academic diplomas, and professional licenses like doctors and lawyers.
8. a) What is the difference between “desire” and “demand”? **Ans.** a) Desire is simply wanting something; demand is desire backed with something of value to exchange for it.
b) The law of supply and demand follows from what fundamental principle of human nature? **Ans.** b) The law of supply and demand follows from the fundamental axiom of human nature “that people seek to satisfy their desire with the least exertion”.

9. How do we know that production could take place without the aid of capital? (III,10) **Ans.** Capital is the product of labor applied to land. There can be production without it, and at some point in the past, production must have taken place without the aid of capital, or there would be no capital. Labor produces and uses capital in order to increase the efficiency of labor.

10. What is the fallacy in the common assertion that “capital employs labor?” (III,10) **Ans.** Properly defined in the science of political economy, capital is not a person, or a class of people, but a thing: wealth that is produced by labor and used to increase the results of labor. This principle holds true, even when we speak of capitalists and laborers. Capitalists, as such, do nothing with their capital. It is labor that employs (utilizes or operates) capital. Therefore, in the economic sense, and contrary to common usage, a capitalist does not “employ” labor, but merely contracts with (hires) labor to employ capital.

Narrative for Lesson 8: Distribution of Wealth

The distribution of wealth, in political economy is the division of wealth among the three factors of production—land, labor, and capital. And their returns are rent, wages, and interest

Production and distribution are related to each other. Distribution is the continuation of production—the latter part of the same process of which production is the first part. The goal of production is the satisfaction of desire, and distribution is the means by which products are brought to the point at which they can satisfy desires.

J.S. Mill observes that governments are capable of making any arrangement they choose with regard to ownership of things that have already been produced. Even the right of a person to keep what he or she has produced depends on the community's guarantee of property against theft.

When production is taken from producers, future production tends to stop, and it begins to stop as soon as producers understand that their wealth will be seized in the future.

The basic distinction between the laws of production and the laws of distribution are that the laws of production are physical laws, and the laws of distribution are moral laws.

Moral laws are a necessary part of the science of political economy because the moral laws of ownership dictate the distribution, and therefore, indirectly, the production of wealth. If human laws are not in harmony with moral laws, it will stifle production and cause social problems.

According George, we know that natural rights of property exist. He observes that society must determine property rights in some way or other—and that questions about the basis of property cannot be asked without reference to moral considerations. “For to say that a human law ought to be different from what the legislature enacts is to say that there is a natural law by which human laws are to be tested.”

The basic fallacy in Mill's justification of private property in land is his acknowledgment that private property in land was originally based on violence, and is an unjust institution—yet he uses the improvements, which are wealth made upon the land, ploughing, buildings, fences etc, to justify ownership in the land, which was not produced.

In terms of political economy, “made land” or “improved land”, which has been altered by labor is classified as wealth. The right of property in improvements or “made land” does not confer a right of ownership in the land (location or site) underneath. Mill's justification of property in land confounds wealth with land.

The margin of production is the best land that is freely available without the payment of rent. At the margin, labor may keep all the wealth it produces, and capitalists may keep the entire increase of capital. The returns to labor and capital everywhere depend on the potential productivity at the margin of production. This principle holds true even if land hoarding and sprawl have removed labor and capital's access to any usable free land. In that case, competition forces the returns to labor and capital down to the lowest that they can accept; and the margin of production becomes the least potentially productive land in use—land that will yield no more than enough to pay a minimum of wages and interest.

Student _____

Lesson 8: Distribution of Wealth

Please read Part IV

1. What is the distribution of wealth, in political economy? (IV,1)
2. How are production and distribution related to each other? (IV,1)
3. Why does J. S. Mill hold that the distribution of wealth is a matter of human law? (IV,2)
4. How is future production affected by taking from producers what they produce, without their consent? When do the effects begin to be seen? (IV,2)
5. What is the basic distinction between the laws of production and the laws of distribution? (IV,3)

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6. Why are moral laws a necessary part of the science of political economy? (IV,3)
7. According George, how do we know that natural rights of property exist? (IV,4)
8. What is the basic fallacy in Mill's justification of private property in land? (IV,4)
9. In terms of political economy, how is "made land" or "improved land" classified? (IV,5)
10. What is the margin of production, and what is its role in the distribution of wealth? (review)

Answers to Lesson 8: Distribution of Wealth

1. What is the distribution of wealth, in political economy? (IV,1) The division of wealth among the factors of production.
2. How are production and distribution related to each other? (IV,1) “Distribution is the continuation of production — the latter part of the same process of which production is the first part.” The goal of production is the satisfaction of desire, and distribution is the means by which products are brought to the point at which they can satisfy desires.
3. Why does J. S. Mill hold that the distribution of wealth is a matter of human law? (IV,2) He observes that governments are capable of making any arrangement they choose with regard to ownership of things that have already been produced. Even the right of a person to keep what he or she produces depends on the community’s guarantee of property against theft.
4. How is future production affected by taking from producers what they produce, without their consent? When do the effects begin to be seen? (IV,2) Production would tend to stop, and it would begin as soon as the producers understood that their wealth will be seized.
5. What is the basic distinction between the laws of production and the laws of distribution? (IV,3) The laws of production are physical laws; the laws of distribution are moral laws.
6. Why are moral laws a necessary part of the science of political economy? (IV,3) Moral laws are a necessary part of the science of political economy because the moral laws of ownership dictate the distribution, and therefore, indirectly, the production of wealth. If human laws are not in harmony with moral laws, it will stifle production and cause social problems.
7. According to George, how do we know that natural rights of property exist? (IV,4) He observes that society must determine property rights in some way or other — and that questions about the basis of property cannot be asked without reference to moral considerations. “For to say that a human law ought to be different from what the legislature enacts is to say that there is a natural law by which human laws are to be tested.”
8. What is the basic fallacy in Mill’s justification of private property in land? (IV,4) The basic fallacy in Mill’s justification of private property in land is his acknowledgment that private property in land was originally based on violence, and it is an unjust institution — yet he uses the improvements, which are wealth made upon the land, ploughing, buildings, fences, to justify ownership in the land, which was not produced.
9. In terms of political economy, how is “made land” or “improved land” classified? (IV,5) “Made land” or “improved land”, which has been altered by labor is classified as wealth. The right of property in improvements or “made land” does not confer a right of ownership in the land (location or site) underneath. Mill’s justification of property in land confounds wealth with land.
10. What is the margin of production, and what is its role in the distribution of wealth? (review) The margin of production is the best land that is freely available without the payment of rent. At the margin, labor may keep all the wealth it produces, and capitalists may keep the entire increase of capital. The returns to labor and capital everywhere depend on the potential productivity at the margin of production. This principle holds true even if land hoarding and sprawl have removed labor and capital’s access to any usable free land. In that case, competition forces the returns to labor and capital down to the lowest that they can accept; and the margin of production becomes the least potentially productive land in use—land that will yield no more than enough to pay a minimum of wages and interest.

Narrative for Lesson 9: Money

There are deeper confusions, which contributed to the general confusion about the nature of money. They are confusions about the nature of wealth and the cause of value. Because money serves as a measure of value and a representative of wealth, those confusions make the essential character of money hard to determine.

Money is not used to satisfy human desires directly. Its primary use is as a medium of exchange.

The exchange value of money does not depend on its value as a commodity. Most circulating media (money) have little or no value as commodities, but high exchange value.

The quality in money that distinguishes it from various forms of credit is that Money completes a transaction without the requirement of trust. Credit is a promise to pay which does requires trust.

Besides serving as a medium of exchange, the chief function of money is a common measure of value. Since money is the thing most frequently exchanged, people become accustomed to measuring value in terms of money.

Credit, by facilitating exchanges, enables deferred payments to take place. This greatly enhances the convenience of the exchanging parties.

George believed that the use of credit preceded the use of money in exchange. That is because the use of trust and credit is simpler and more primary to human society. The use of money is more abstract and reveals a wider and more complex web of exchanges. “It is really in the exchange between those who are unknown to each other and do not expect to meet each other again that money performs its most indispensable office.”

As society develops, money tends to have less intrinsic value. The reason for this is that money with intrinsic value is wealth, a product of labor. Therefore, a decrease in money’s intrinsic value saves labor.

When the intrinsic value of currency is decreased, Its supply must be carefully controlled to ensure its continued viability (exchange value) as money.

In George’s view, the labor-saving quality of credit money leads the government to its proper role of issuing money. That competition among private suppliers of money leads to inefficiency and corruption. Because the most efficient kind of money is that which has no intrinsic value at all, the legislative and executive power of government is the most effective way to control its supply. Critics of this position contend that governments have historically failed to honor their responsibility to issue currency honestly and transparently, and that competition and “free banking” is the only fair way to supply society’s need for money. George contended, however, that most of the problems of corruption and inefficiency in the issuance of currency were really caused by underlying economic distortions, and that the real competence of government to issue money could only be determined once the basic questions of property and public revenue were solved.

Student _____

Questions for Lesson 9: Money

Please read Part V

1. What deeper confusions contributed to the general confusion about the nature of money? (V,1)
2. Is money used to satisfy human desires directly? What is its primary use? (V,2)
3. Does the exchange value of money depend on its value as a commodity? (V,2)
4. What quality in money distinguishes it from various forms of credit? (V,2)
5. What is the chief function of money besides serving as a medium of exchange? (V,3)

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6. How does credit facilitate exchanges? (V,4)

7. Why does George believe that the use of credit in exchange preceded the use of money? (V,4)

8. As society develops, what is the tendency with respect to the use of money with intrinsic value? What is the reason for this tendency?

9. When the intrinsic value of currency is decreased, what must be done to ensure its continued viability (exchange value) as money? (V,5)

10. In George's view, how does the labor-saving quality of credit money lead to the proper role of government in issuing money? (V,6)

Answers to Lesson 9: Money

1. What deeper confusions contributed to the general confusion about the nature of money? (V,1)
Ans. confusions about the nature of wealth and the cause of value. Because money serves as a measure of value and a representative of wealth, those confusions would make the essential character of money hard to determine.
2. Is money used to satisfy human desires directly? What is its primary use? (V,2) **Ans.** No; its primary use is as a medium of exchange.
3. Does the exchange value of money depend on its value as a commodity? (V,2) **Ans.** No. Most circulating media (money) have little or no value as a commodity, but high exchange value.
4. What quality in money distinguishes it from various forms of credit? (V,2) **Ans.** Money completes a transaction without the requirement of trust. Credit is a promise to pay which requires trust.
5. What is the chief function of money besides serving as a medium of exchange? (V,3) **Ans.** Serving as a common measure of value. Since money is the thing most frequently exchanged, people become accustomed to measuring value in terms of money.
6. How does credit facilitate exchanges? (V,4) **Ans.** It enables deferred payments to take place. This greatly enhances the convenience of the exchanging parties.
7. Why does George believe that the use of credit in exchange preceded the use of money? (V,4)
Ans. The use of trust and credit is simpler and more primary to human society. The use of money is more abstract and reveals a wider and more complex web of exchanges. "It is really in exchange between those who are unknown to each other and do not expect to meet another person again that money performs its most indispensable office."
8. As society develops, what is the tendency with respect to the use of money with intrinsic value? What is the reason for this tendency? **Ans.** It tends to decrease. Money with intrinsic value is wealth, a product of labor. A decrease in money's intrinsic value saves labor.
9. When the intrinsic value of currency is decreased, what must be done to ensure its continued viability (exchange value) as money? (V,5) **Ans.** Its supply must be controlled.
10. In George's view, how does the labor-saving quality of credit money lead to the proper role of government in issuing money? (V,6) **Ans.** Competition among private suppliers of money will lead to inefficiency and corruption. Because the most efficient kind of money is that which has no intrinsic value at all, the legislative and executive power of government is the most effective way to control its supply. Critics of this position contend that governments have historically failed to honor their responsibility to issue currency honestly and transparently, and that competition and "free banking" is the only fair way to supply society's need for money. George contended, however, that most of the problems of corruption and inefficiency in the issuance of currency were really caused by underlying economic distortions, and that the real competence of government to issue money could only be determined once the basic questions of property and public revenue were solved.

Narrative for Lesson 10: Political Economy Today's

In a way, political economy (or economics) did achieve a body of accepted truth during the 20th century—particularly in the area of microeconomics and “price theory”. Coherence is lacking, however, in what should be done about the chronic macroeconomic problems of boom/bust cycles, poverty and sustainable development.

The Single Tax movement had some effective political successes that were ignored by historians. Much of it had to do with the establishment of the income tax in the United States, which, as originally designed, did much to collect the unearned income of landowners. The separate assessment of land and buildings was broadly established. The establishment of “direct democracy” by way of state referendums was successfully pushed by Georgists. Land value taxation in California financed irrigation districts that made that desert state the nation's leading farm producer. Great Britain nearly enacted a national land value tax; its momentum was interrupted by WWI. (This is a very brief sampling; for more examples, we recommend the book *Land Value Taxation Around the World* (Robert Schalkenbach Foundation).

According to Gaffney, World War I and the Russian revolution caused the Single Tax movement to lose its momentum by diverting attention from the progressive movement, to which the single tax was very influential. Politically, the focus shifted to “the great marathon Red Scare” as Stalin's Soviet Union grew in power. After the Great Depression, Keynesian policies were given much of the credit for economic recovery.

Neo-classical economists teach that equity and efficiency are opposed to each other because they presume a “zero-sum” condition in which progress can only come by giving up something good. The most famous example of this reasoning is in the “Phillips curve”, which describes an apparently inevitable trade-off between inflation and unemployment. However Henry George's political economy reconcile them by ending land speculation—thus creating full employment without rising prices.

There are many difficult public-policy problems that Georgist public revenue policy would help to solve: Urban sprawl, energy policy, affordable housing, public debt, sustainable agriculture, and overpopulation. The Georgist reform has been dismissed as a “panacea” (cure all)—but in fact it does touch on virtually every area of public policy because it would give access to the universally necessary economic factor of land.

By definition, externalities affect the total economy without changing the elements of individual choices. Therefore, the methods of neoclassical economics to interpret all economic phenomena as aggregations of individual choices tends to complicate and obscure the effects of externalities.

Land value is a perfect example of an externality, because it is a value that the landowner can collect, but is completely independent of anything the landowner does.

In regard to environmental policy—restrictions on pollution and carbon emissions, would diminish the rental value of certain industrial sites. However, by publicly collecting the rent of land, it would prevent the landholders of those sites from withdrawing the land from production and causing unemployment. Therefore, public considerations of the environment would be simplified and enabled to focus on the overall benefits to the health and wellbeing of society and the rental value of land for public revenue, rather than any loss of jobs

It was not necessary to discuss the business cycle in *The Science of Political Economy*, because the business cycle is not a necessary part of political economy, but the result of an underlying distortion (land speculation). George's position was that if property rights and public revenue policy were made to conform to the natural laws of distribution, the root cause of the business cycle would disappear.

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When the government says we are at “full employment”, a significant number of people are still involuntarily unemployed. That is because the government is not counting everyone who would work if there were enough jobs for everyone who was willing and able to work. Also, wages and benefits are often so low for the least skilled workers, that some people who are receiving a bare subsistence with welfare, find that acquiring a job would not improve their wellbeing. “People seek to satisfy their desires with the least exertion.”

There are two ways in which land speculation retards the economy. First, it pushes labor and capital to less potentially productive locations, reducing the results of labor and capital. Second, it causes unemployment; the less people are employed, the more it diminishes the total production of the country.

Student _____

Lesson 10: Political Economy Today

Please read the Afterword, “The Science of Political Economy: What Henry George ‘Left Out’”, and the supplements as shown

1. Did political economy (or economics) achieve a body of accepted truth during the 20th century? In what respects does the discipline still lack coherence? (Corruption of Economics)

2. a) List some of the effective political successes of the Single Tax movement that were ignored by historians. (Corruption of Economics)

- b) According to Gaffney, what historical factors made the Single Tax movement lose its momentum?

3. Why do Neo-classical economists teach that equity and efficiency are opposed to each other? How does Henry George’s political economy reconcile them? (Corruption of Economics)

4. Describe a difficult public-policy problem and how Georgist public revenue policy would help to solve it.

5. What is it about the methods of neoclassical economics that complicates their understanding of externalities? (What Henry George “Left Out”)

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6. How is land value an example of an externality? (What Henry George “Left Out”)

7. How can Georgist political economy help to simplify questions of environmental policy? (What Henry George “Left Out”)

8. Why was it not necessary to discuss the business cycle in *The Science of Political Economy*? (What Henry George “Left Out”)

9. When the government says we are at “full employment point”, why are a significant number of people still involuntarily unemployed? (The Boom/Bust Cycle & previous courses)

10. What are the two ways in which land speculation retards the economy? (Prior courses)

11. In a brief essay, answer how you think society would be affected by a more widespread understanding of the fundamental principles of political economy.

Excerpts from *The Corruption of Economics*

by Mason Gaffney

Introduction: The Power of Neo-classical Economics

Neoclassical economics is the idiom of most economic discourse today. It is the paradigm that bends the twigs of young minds. Then it confines the florescence of older ones, like chicken-wire shaping a topiary. It took form about a hundred years ago, when Henry George and his reform proposals were a clear and present political danger and challenge to the landed and intellectual establishments of the world. Few people realize to what a degree the founders of Neoclassical economics changed the discipline for the express purpose of deflecting George, discomfiting his followers, and frustrating future students seeking to follow his arguments. The stratagem was semantic: to destroy the very words in which he expressed himself. Simon Patten expounded it succinctly. "Nothing pleases a ... single taxer better than ... to use the well-known economic theories ... [therefore] economic doctrine must be recast" (Patten 1908; Collier, 1979).

George believed economists were recasting the discipline to refute him. He states so, in his last book, *The Science of Political Economy*. George's self-importance was immodest, it is true. However, immodesty may be objectivity, as many great talents from Frank Lloyd Wright to Muhammad Ali and Frank Sinatra have displayed. George had good reasons, which we are to demonstrate. George's view may even strike some as paranoid. That was this writer's first impression, many years ago. I have changed my view, however, after learning more about the period, the literature, and later events.

Having taken shape in the 1880-1890s, Neo-Classical Economics (henceforth NCE) remained remarkably static. Major texts by Marshall, Seligman, and Richard T. Ely, written in the 1890s, went through many re-printings each over a period of 40 years with few if any changes. Not until 1936 was there another major "revolution," and that was hived off into a separate compartment, macro-economics, and contained there so as not to disturb basic tenets of NCE. Compartmentalization, we will see in several instances, is the common NCE defense against discordant data and reasoning.

J. B. Clark's capital theory "... gives the appearance of being specially tailored to lead to arguments for use against George" (Collier, 1979). "The probable source from which immediate stimulation came to Clark was the contemporary single tax discussion" (Fetter, 1927). "To date, capital theory in the Clark tradition has provided the basis for virtually all empirical work on wealth and income" (Dewey, 1987; cf. Tobin, 1985). Later writers have added fretworks, curlicues and arabesques beyond counting, and achieved more isolation from history, and from the ground under their feet, than in Patten's dreams, but all without disturbing the basic strategy arrived at by 1899, tailored to lead to arguments against Henry George.

To most modern readers, probably George seems too minor a figure to have warranted such an extreme reaction. This impression is a measure of the neo-classicals' success: it is what they sought to make of him. It took a generation, but by 1930 they had succeeded in reducing him in

the public mind. In the process of succeeding, however, they emasculated the discipline, impoverished economic thought, muddled the minds of countless students, rationalized free-riding by landowners, took dignity from labor, rationalized chronic unemployment, hobbled us with today's counterproductive tax tangle, marginalized the obvious alternative system of public finance, shattered our sense of community, subverted a rising economic democracy for the benefit of rent-takers, and led us into becoming an increasingly nasty and dangerously divided plutocracy.

The crabbed spirit of neo-classical economics

Neo-classical economics makes an ideal of "choice." That sounds good, and liberating, and positive. In practice, however, it has become a new dismal science, a science of choice where most of the choices are bad. "TANSTAAFL" (There Ain't No Such Thing As A Free Lunch) is the slogan and shibboleth. Whatever you want, you must give up something good. As an overtone there is even a hint that what one person gains he must take from another. The theory of gains from trade has it otherwise, but that is a heritage from the older classical economists. Henry George, in contrast, had a genius for reconciling-by-synthesizing. Reconciling is far better than merely compromising. He had a way of taking two problems and composing them into one solution. He took two polar philosophies, collectivism and individualism, and synthesized a plan to combine the better features, and discard the worse features, of each. He was a problem-solver, who did not suffer incapacitating dilemmas and standoffs.

As policy-makers, neo-classical economists present us with "choices" that are too often hard dilemmas. They are in the tradition of Parson Malthus, who preached to the poor that they must choose between sex or food. That was getting right down to grim basics, and is the origin of a well-earned epithet, "the dismal science." Most modern neo-classicals are more subtle (although the fascist wing of the otherwise admirable ecology movement gets progressively less so). Here are some dismal dilemmas that neo-classicals pose for us today. For efficiency we must sacrifice equity; to attract business we must lower taxes so much as to shut the libraries and starve the schools; to prevent inflation we must keep an army of unfortunates unemployed; to make jobs we must chew up land and pollute the world; to motivate workers we must have unequal wealth; to raise productivity we must fire people; and so on.

The neo-classical approach is the "trade-off." A trade-off is a compromise. That has a ring of reasonableness to it, but it presumes a zero-sum condition. At the level of public policy, such "trade-offs" turn into paralyzing stand-offs, where no one gets nearly what he wants, or could get. It overlooks the possibility of a reconciliation, or synthesis, instead. In such a resolution, we are not limited by trade-offs between fixed A and B: we get more of both.

Popular responsiveness to problem-solvers

Voters faced with two candidates, each coached by a neo-classical economist, also face a hard choice. They often appear apathetic and take a third choice, staying home. However, history denies that voters are intrinsically apathetic. They have gotten turned on by candidates who try to lead up and away from dismal trade-offs.

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In 1980 it was Ronald Reagan. Instead of the dismal Phillips Curve ("choose inflation or unemployment") he offered the happy Laffer Curve: lower tax rates would lead to higher supplies, higher revenues, and lower deficits, he promised. Lowering taxes, said Laffer, would eliminate the "wedge effect." He often cited Henry George in support of his position. Thus he would unleash supply, and collect more taxes while applying lower tax rates. The voters were sick of 2nd-generation Keynesians who had been reduced to preaching austerity, so they were game (if not wise) to buy into Reaganomics as advertised.

Unfortunately, the Laffer Curve turned out to be wildly overoptimistic, and Reaganomics partly fraudulent and hypocritical in application. The voters again tuned out and seemed apathetic. They are not saying, however, they don't care. They are saying "come back when you have something better, mean what you say, and deliver what you promise."

From 1936-70 it was Keynes and his apostles, who had a long run with the voters, in spite of virulent critics. Keynes's winning political formula was that consumption and capital formation are not alternatives to be traded off, but complements, reinforcing one another. Raise wages, he said, raise private and public consumer spending, and get more capital formation as a happy by-product. "We can have it all," he said; they called it "the economics of abundance." Who wouldn't prefer that to long-faced moralizers preaching we must suffer for the prodigalities of the past, or for the sake of a remote and uncertain future? Even puritans learned better as children from Longfellow's "Psalm of Life."

When the theory of the propensity to consume, and the multiplier, lost their charm, and some strong trade unions (like Hoffa's Teamsters) showed their nastier side, the American voters tuned in to JFK and "business Keynesianism" in which the emphasis turned to fostering new investing. Keynes had been shrewd enough to cast his theories to accommodate either emphasis. Here the formula was to raise the "marginal efficiency of capital" (today we say the marginal rate of return) after taxes by giving preferential tax treatment to new investing, keeping tax rates high on income from old assets like land. It was a species of Georgism, applied via the Federal income tax. The key devices were fast write off for new capital, and the investment tax credit.

There was no talk or thought, however, of enriching capitalists by impoverishing workers. The promise was to enrich capitalists and workers together, as higher investing raised aggregate demand for labor and its products through the "multiplier" effect.

In time that happy glow of mutuality turned to ashes. After JFK, with his influential economist Walter Heller, the flame burned low; later leaders stumbled in the dark. They relied too simply on demand management through fiscal and monetary policy, carrying them well beyond their power to stimulate supply. Thus they lurched into Stagflation: double-digit inflation and recession conjoined. They blamed the war, then the Arabs. They scolded the public, and they called for sacrifices, as leaders always do when they lack ideas. "You must mature and face the facts of life," they lectured. "There is no way to stop inflation except unemployment. Whichever evil you choose, don't blame us, we told you so." Faced with that, the voters exercised a third choice: they retired the patrons of those new dismal scientists.

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Before Keynes there was another great reconciler, Henry George. In 1879, George electrified the world by identifying a cause of the boom/slump cycle, identifying a cause of inadequate demand for labor, and, best of all, following through with a plausible, practicable remedy. Like Keynes and Laffer after him, he turned people on by saying "Forget the bitter trade-offs; we can have it all."

George came out of a raw, naive new colony, California, as a scrappy marginal journalist. Yet his ideas exploded through the sophisticated metropolitan world as though into a vacuum. His book sales were in the millions. Seven short years after publishing *Progress and Poverty* in remote California he nearly took over as Mayor of New York City, the financial and intellectual capital of the nation. He thumped also-ran Theodore Roosevelt, and lost to the Tammany candidate (Abram S. Hewitt) only by being counted out. Three more years and he was a major influence in sophisticated Britain. In 1889, incredibly, he became "adviser and field-general in land reform strategy" to the Radical wing of the Liberal Party in Britain, where he was not even a citizen. It also happened that when Chamberlain bowed out, the Radical wing became the Liberal Party. It adopted a land-tax plank after 1891 (The "famous Newcastle Programme"), and came to carry George's (muted) policies forward under successive Liberal Governments of Campbell-Bannerman, Asquith, and Lloyd George.

How could a marginal man come out of nowhere and make such an impact? The economic gurus of the day, even as today, were in a scolding mode, blaming unemployment on faulty character traits and genes, and demanding austerity. They were not intellectually armed to refute him or befuddle his listeners. He had studied the classical economists, and used their tools to dissect the system. Neo-classical economics arose in part to fill the void, to squeeze out such radical notions, and be sure nothing like the Georgist phenomenon could recur.

Again, are we not imputing too much weight to a minor figure? We are told that Georgism withered away quietly with its founder in 1897. That, however, is warped history. One of the great derelictions of American historians is to have neglected the single-tax movement, 1901-24. It is also a warped view of "The Single Tax" as a discrete, millennial change, a quantum leap away from life as we know it (Gaffney, 1976). Pure Georgism never "took over whole hog," but no single philosophy ever does. Modified Georgism, melded into the Progressive Movement, helped run the USA for 17 years, 1902-19, working through both major political parties. At the local level, it continued on through the early 1920s. Local property taxation was modified on Georgist lines even as it rose in absolute terms. The first Federal income tax law was drafted by a Georgist (Congressman Warren Worth Bailey of Johnstown, Pennsylvania) with Georgist goals uppermost. Real concessions were made: the politicians heard the voters. Historians of the Populist Party and movement often note that its ideas succeeded even though the Party failed, because its ideas were co-opted by major parties. Georgism was a strand of American populism, later wrapped into Progressivism.

Consider, for example, that in 1913 Wm. S. U'Ren, "Father of the Initiative and Referendum," created this system of direct democracy for the express purpose of pushing single-tax initiatives in Oregon. According to U'Ren, another by-product of the single-tax campaigns in Oregon was

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the 1910 "adoption of the first Presidential Primary Law, which was quickly imitated by so many other States that (Woodrow) Wilson's nomination and election over Taft was made possible" To that we may add that another "Father of the Direct Primary," George L. Record of New Jersey, was a mentor of Woodrow Wilson and an earnest Georgist who had gotten railroad lands up-taxed to the great benefit of public schools in New Jersey, and to the impoverishment of special interest election funds. "... it was the passage of these great election reforms in the Wilson Administration (in New Jersey) that led ... (to) winning the Bryan support and the Democratic nomination for President". That helps explain the gratitude of President Wilson, who included single-taxers in his Cabinet (Newton D. Baker, Louis F. Post, Franklin K. Lane, and William B. Wilson), and worked with single-tax Congressmen like Henry George, Jr., and Warren Worth Bailey.

Consider that in 1916 a "pure single-tax" initiative won 31% of the votes in California. Even while "losing," such campaigns raised consciousness of the issue to a high degree, such that assessors were focusing more attention on land. Thus, in California, 1917, tax valuers focused on land value so much that it constituted 72% of the assessment roll for property taxation - a much higher fraction than today. Joseph Fels, an idealistic manufacturer, was throwing millions into such campaigns in several states, having earlier thrown himself and his fortune into the English land tax campaign that brought on the Parliamentary revolution of 1909.

Consider that there was a single-tax party, the Commonwealth Land Party. In 1920 its Presidential candidate was Carrie Chapman Catt, fresh from leading her successful campaign for the 19th Amendment, and just before founding the League of Women Voters. In 1924 its Presidential candidate was William J. Wallace of New Jersey, with John C. Lincoln, brilliant Cleveland industrialist, for Vice-president. In 1919 Georgists began working through the Manufacturers and Merchants Federal Tax League to sponsor a federal land tax, the Ralston-Nolan Bill. Drafted by Judge Jackson H. Ralston, it would impose a "1% excise tax on the privilege of holding lands, natural resources and public franchises valued at more than \$10,000, after deducting all improvements" In 1924 Congressman Oscar E. Keller of Minnesota reintroduced it (H.R. 5733). In spite of Harding, Coolidge, and Hoover, Progressivism still lived in Congress. In 1923, for the first and last time, income tax returns were made public, giving valuable data-ammunition to land taxers.

Consider that in 1934 Upton Sinclair, so-called "socialist," almost became Governor of California on a modified Georgist platform. Two years later, Jackson H. Ralston, by then a Stanford Law Professor, led another California Initiative campaign to focus the property tax on land values. Norman Thomas, perennial Socialist candidate for President of the U.S., kept a land tax plank in his platform. Daniel Hoan, the "socialist" Mayor of America's model city, Milwaukee, had his tax assessor focus on up-valuing land. Hoan distributed land value maps to the Milwaukee public, to raise their consciousness of the issue.

Historian Eric Goldman (1956) found George to have inspired most of the major reformers of the early 20th Century. "... no other book came anywhere near comparable influence, and I would like to add this word of tribute to a volume which magically catalyzed the best yearnings

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of our grandfathers and fathers". Raymond Moley wrote, "George ... touched almost all of the corrective influences which were the result of the Progressive movement. The restriction of monopoly, more democratic political machinery, municipal reform, the elimination of privilege in railroads, the regulation of public utilities, and the improvement of labor laws and working conditions - all were ... accelerated by George".

Consider that most American states and Canadian provinces required separate valuations of land, for tax purposes. Professional valuers, responding to the general interest, were routinely valuing land separately from buildings, and developing workable techniques to handle the occasional tricky case. Valuation anticipates taxation. Lawson Purdy, one of those valuers, was Tax Commissioner of the City of New York, a founder of and power in the National Tax Association, a campaigner for George in the 1897 race, and a leader of the Manhattan Single Tax Club. Under this kind of influence, New York City kept its subway fares down to 5 cents, paying for most of the cost from taxes on the benefitted lands, It also exempted new residential structures from the property tax for ten years, 1924-34.

Consider that Wright Act Irrigation Districts were spreading fast throughout rural California, using Georgist land taxes to finance irrigation works. The Wright Act dated from 1887, and sputtered along fitfully until in 1909 the California Legislature amended the enabling legislation to limit the assessment in all new districts to the land value only. It also let old districts do so by local option. The old districts soon did: Modesto in 1911, Turlock in 1915. This was Georgism getting its "second wind," so to speak. Beyond much question, the idea was identified with George. The legislative leader, L.L. Dennett of Modesto, got the idea from his father, an old neighbor of Henry George in San Francisco.

In 1917, rural Georgism got a third wind: the California Legislature made it mandatory for all Districts to exempt improvements. They then grew to include over four million acres by 1927, and to dominate American agriculture in their specialty crops. They built the highest dam in the world at that time (Don Pedro, on the Tuolumne River in the Sierra Nevada), financing it 100% from local land taxes. Albert Henley, a lawyer who crafted the modified District that serves metropolitan San Jose, evaluated them thus: "The discovery of the legal formula of these organizations was of infinitely greater value to California than the discovery of gold a generation before. They are an extraordinarily potent engine for the creation of wealth". They catapulted California into being the top-producing farm state in the Union, using land that was previously desert or range. They made California a generator of farm jobs and homes, while other states were destroying them by latifundiazation.

If this is a "minor" phenomenon it is because the neglect of historians and economists has made it so. One searches in vain through academic books and journals on farm economics for recognition of this, the most spectacularly successful story of farm economic development in history. What references there are consist of precautionary cluckings focused on attendant errors and failures. "Economic development" theorists neglect it altogether, as though California's commercial farming had sprung full blown from a corporate office, with no grass roots basis, and no development period. It is as though the clerisy (learned) were in conspiracy against the

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demos (common people), under some Trappist oath against disclosing what groups of small people achieved through community action, and through the judicious application of the pro-incentive power of taxing land values.

There is a common defeatist notion that "farmers" are implacably against land taxation. The California experience seems to belie it. In other states, also, The Grange and the Farmers' Union were pushing for focusing the property tax on land during the 'teens. In Minnesota, the Dakotas, and the Prairie Provinces the Non-Partisan League became a major power in state and local politics, electing a Governor of North Dakota and swaying many elections. North Dakota exempted farm capital from the county property tax, taxing land only. The spirit of Prairie Populism straddled the 49th parallel (the international boundary), radicalizing politics in rural Manitoba, Saskatchewan, Alberta, and British Columbia, all of which were focusing their property taxes on land in this period.

George's ideas were carried worldwide by such towering figures as David Lloyd George in England, Leo Tolstoy and Alexandr Kerensky in Russia, Sun Yat-sen in China, hundreds of local and state, and a few powerful national politicians in both Canada and the USA, Billy Hughes in Australia, Rolland O'Regan in New Zealand, Chaim Weizmann in Palestine, Francisco Madero in Mexico, and many others in Denmark, South Africa, and around the world. In England, Lloyd George's budget speech of 1909 reads in part as though written by Henry George himself. Some of Winston Churchill's speeches were written by Georgist ghosts. Thus, to the rent-taker, the typical college trustee or regent, George's ideas remained a real and present danger over several decades: the very decades when neo-classical economics was spreading through the academic clerisy. With the development of direct democracy, open primaries, the secret ballot, direct election of US Senators, the Initiative, Referendum, and Recall, and the like, crude vote-buying such as prevailed in the late 19th Century would no longer dominate the electorate. Mind-control became the urgent need; NCE was the tool. George's ideas and the allied Progressive Movement fell, not from failure to deliver, but to the Great Marathon Red Scare that has dominated much of the world from 1919 to 1989. This panic marshalled and energized rent-takers everywhere; by confusion, some of it deliberate, its victims included Georgists. It inhibited them until their message lost its vigor and excitement and became just a minor local tax reform. Its leaders have moved to the trivial center, downplaying George's grand goals for full employment, catering to the practical but small and prosaic advantages of median homeowners at the local level. Now, with the fall of the Berlin Wall, Progressive ideas might very well pick up again where the original Movement was aborted.

Henry George as reconciler and problem-solver

Let us itemize the several constructive reconciliations in George's reform proposal. This will explain its wide potential appeal, hence its ongoing threat to embedded rent-takers with a stake in unearned wealth. It will explain why they had neo-classical economists working so hard to put this genie back in the bottle.

1. George reconciled common land rights with private tenure, free markets, and modern capitalism. He would compensate those dispossessed and made landless by the spread and

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strengthening of what is now called "European" land tenure, whose benefits he took as given and obvious. He would also compensate those driven out of business by the triumph of economies of scale, whose power he acknowledged and even overestimated. He proposed doing so through the tax system, by focusing taxes on the economic rent of land. This would compensate the dispossessed in three ways.

- a. Those who got the upper hand by securing land tenures would support public services, so wages and commerce and capital formation could go untaxed.
- b. To pay the taxes, landowners would have to use the land by hiring workers (or selling to owner-operators and owner-residents). This would raise demand for labor; labor spending would raise demand for final products.
- c. To pay the workers, landowners would have to produce and sell goods, raising supply and precluding inflation. Needed capital would come to their aid by virtue of its being untaxed. Thus, George would cut the Gordian knot of modern dilemma-bound economics by raising demand, raising supply, raising incentives, improving equity, freeing up the market, supporting government, fostering capital formation, and paying public debts, all in one simple stroke. It's quite a stroke, enough to leave one breathless.

In practice, landowners faced with high land taxes often choose another, even better, course than hiring more workers: they sell the land to the workers, creating an economy and society of small entrepreneurs. This writer has documented a strong relationship between high property tax rates, de-concentration of farmland, and intensity of land use (Gaffney, 1992).

2. George's proposal lets us lower taxes on labor without raising taxes on capital. Indeed, it lets us lower taxes on both labor and capital at once, and without lowering public revenues.
3. Georgist tax policy reconciles equity and efficiency. Taxing land is progressive because the ownership of land is so highly concentrated among the most wealthy, and because the tax may not be shifted. It is efficient because it is neutral among rival land-use options: the tax is fixed, regardless of land use. This is one favorable point on which many modern economists actually agree, although they keep struggling against it.

George showed that a tax can be progressive and pro-incentive at the same time. Think of it! An army of neo-classicalists preach dourly (relentlessly) we must sacrifice equity and social justice on the altar of "efficiency." They need that thought to stifle the demand for social justice that runs like a thread through The Bible, The Koran, and other great religious works. George cut that Gordian knot, and so he had to be put down.

The only shifting of a land tax is negative. By negative shifting I mean that the supply-side effects of taxing land will raise supplies of goods and services, and raise the demand for labor, thus raising the bargaining power of median people in the marketplace, both as consumers and workers. This effect makes the tax doubly progressive: it undercuts the holdout power and bargaining power of landowners vis-a-vis workers, and also vis-a-vis new investors in real capital. This effect also makes the land tax doubly efficient.

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4. A state, provincial, or local government can finance generous public services without driving away business or population. The formula is simple: tax land, which cannot migrate, instead of capital and people, which can. By eliminating the destructive "Wedge Effect," the land tax lets us support schools and parks and libraries and water purification and police and fire protection, etc., as generously as you please, without suppressing or distorting useful work, and without taxing investors in real capital.

5. Georgist tax policy contains urban sprawl, and its heavy associated costs, without overriding market decisions or consumer preferences, simply by making the market work better. Land values are the product of demand for location; they are marked by continuity in space. That shows quite simply that people demand compact settlement and centrality. A well-oiled land market will give it to them.

6. Georgist tax policy makes jobs without inflation, and without deficits. "Fiscal stimulus," in the shallow modern usage, is a euphemism for running deficits. George's proposed land tax might be called, rather, "true fiscal stimulus." It stimulates demand for labor by promoting hiring; it precludes inflation as the labor produces goods to match the new demand. It precludes deficits because it raises revenue. That is its peculiar reconciliatory genius: it stimulates private work and investing in the very process of raising revenue. It is the only tax of any serious revenue potential that does not bear down on and suppress production and exchange. As I said, George takes two problems and composes them into one solution.

7. George's land tax lets a polity attract people and capital en masse, without diluting its resource base. This is by virtue of synergy, the ultimate rationale for Chamber-of-Commerce boosterism. Urban economists like William Alonso have illustrated the power of such synergy by showing that bigger cities have more land value per head than smaller ones. (Land value is the resource base of a city.) Urbanists like Jane Jacobs and Holly Whyte have written on the intimate details of how this works on the streets. Julian Simon (*The Ultimate Resource*) philosophizes on the power of creative thought generated when people associate freely and closely in large numbers. Henry George made the same points in 1879.

8. Georgist policies let us conserve ecology and environment while also making jobs, by abating sprawl. It is a matter of focusing human activity on the good lands, thus meeting demands there and relieving pressure to invade lands now wild that are marginal for human needs. Urban sprawl is the kind of sprawl most publicized, but there is analogous sprawl in agriculture, forestry, mining, recreation, and other land uses and industries.

9. Georgist policies let us strengthen public revenues while in the same process promoting economy in government.

Anti-governmentalists often identify any tax policy with public extravagance. Georgist tax policy, on the contrary, saves public funds in many ways. By making jobs it lowers welfare costs, unemployment compensation, doles, aid to families with dependent children, and all that. It lowers jail and police costs, and all the enormous private expenditures, precautions, and

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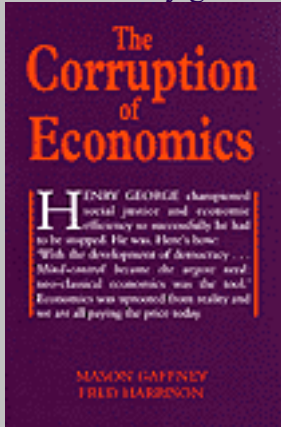
deprivations now taken to guard against theft and other crime. Idle hands are not just wasted, they steal and destroy.

Ultimately, Georgist policy saves the cost of civil disturbances and insurrections, and/or the cost of putting them down. In 1992 large parts of Los Angeles were torched, for the second time in a generation, pretty much as foreboded by Henry George in *Progress and Poverty*.

Forestalling such colossal waste and barbarism is much more than merely a "free lunch." This wasteful, extravagant territorial over-expansion results from two pressures working together. One force is that of land speculators manipulating politics seeking public funds to upgrade their low-grade lands so they may peddle them at higher prices. The other force is that of landless people seeking land for homes, and jobs, and public funds for "make-work" projects. Both these forces wither away when we tax land value and downtax wages and capital. This moves good land into full use, meeting the demand for land by using land that is good by Nature, without high development costs. It also makes legitimate jobs, abating the pressure for "make-work" spending. Above all, it takes the private gain out of upvaluing marginal land at public cost. Such lands, if up valued by public spending, will then have to pay for their own development through higher taxes.

Those nine compelling features of George's program should be enough to persuade one that it had the potentiality of becoming very popular. Its premise, however, was socializing land rents through taxation. Its very strengths were its undoing, then, by evoking a powerful, intransigent, wealthy counterforce.

Prof. Gaffney goes on to survey the major figures in the development of neo-classical economics,



showing how each worked specifically to undermine the influence of Georgist thought. The book goes deeper than the scope of our current inquiry, but it makes for fascinating reading. For information on ordering a copy, go to Robert Schalkenbach publisher.

George's program would abort other, less obvious wastes in government. It obviates much of the huge public cost now incurred to reach, develop, and safeguard lands that should be left in their natural submarginal condition. Today, people occupy flood plains and require levees, flood control dams, and periodic rescue and recovery spending. Others scatter their homes through highly flammable steep brushlands calling for expensive fire-fighting equipment and personnel, and raising everyone's fire insurance premiums. Others build on fault lines; still others in the deserts, calling for expensive water imports. Generically, people now scatter their homes and industries over hundreds of square miles in the "exurbs," or urban sprawl areas, imposing huge public costs for linking the scattered pieces with the center, and with each other.

Answers to Lesson 10: Political Economy Today's

1. Did political economy (or economics) achieve a body of accepted truth during the 20th century? In what respects does the discipline still lack coherence? (Corruption of Economics) **Ans.** In some senses it did. Particularly in the area of microeconomics and “price theory”, there is an accepted body of knowledge that is generally taught. Coherence is lacking, however, in what should be done about the chronic macroeconomic problems of boom/bust cycles, poverty and sustainable development.
2. a) List some of the effective political successes of the Single Tax movement that were ignored by historians. (Corruption of Economics) **Ans.** The Single Tax movement had much to do with the establishment of the income tax in the United States, which, as originally designed, did much to collect the unearned income of landowners. Separate assessment of land and buildings was broadly established. The establishment of “direct democracy” — state referendums — was successfully pushed by Georgists. Land value taxation in California financed irrigation districts that made that desert state the nation’s leading farm producer. Great Britain nearly enacted a national land value tax; its momentum was interrupted by WWI. (This is a very brief sampling; for more examples, we recommend the book *Land Value Taxation Around the World* (Robert Schalkenbach Foundation).
- b) According to Gaffney, what historical factors made the Single Tax movement lose its momentum? **Ans.** World War I and the Russian revolution diverted attention from the progressive movement, to which the single tax was so influential. Politically, the focus shifted to “the great marathon Red Scare” as Stalin’s Soviet Union grew in power. After the Great Depression, Keynesian policies were given much of the credit for economic recovery.
3. Why do Neo-classical economists teach that equity and efficiency are opposed to each other? How does Henry George’s political economy reconcile them? (Corruption of Economics) **Ans.** They presume a “zero-sum” condition in which progress can only come by giving up something good. The most famous example of this reasoning is in the “Phillips curve”, which describes an apparently inevitable trade-off between inflation and unemployment. However Henry George’s political economy reconciles them by ending land speculation—thus creating full employment without rising prices.
4. Describe a difficult public-policy problem and how Georgist public revenue policy would help to solve it. **Ans.** There are many options: Urban sprawl. Energy policy. Affordable housing. Public debt. Sustainable agriculture. Overpopulation. The Georgist reform has been dismissed as a “panacea” — but in fact it does touch on virtually every area of public policy, because it would give access to the universally necessary economic factor of land.
5. What is it about the methods of neoclassical economics that complicates their understanding of externalities? (What Henry George “Left Out”) **Ans.** Its tendency to interpret all economic phenomena as aggregations of individual choices—when by definition, externalities affect the aggregate economy without changing the elements of individual choices.
6. How is land value an example of an externality? (What Henry George “Left Out”) **Ans.** It is a value that the landowner can collect, but is completely independent of anything the landowner does.

7. How can Georgist political economy help to simplify questions of environmental policy? (What Henry George “Left Out”) **Ans.** Restrictions on pollution and carbon emissions, would diminish the rental value of certain industrial sites. However, by publicly collecting the rent of land, it would prevent the landholders of those sites from withdrawing the land from production, and causing unemployment. Therefore, public considerations of the environment would be simplified and enabled to focus on the overall benefits to the health and wellbeing of society and the rental value of land for public revenue, rather than any loss of jobs

8. Why was it not necessary to discuss the business cycle in *The Science of Political Economy*? (What Henry George “Left Out”) **Ans.** Because the business cycle is not a necessary part of political economy, but the result of an underlying distortion (land speculation). George’s position was that if property rights and public revenue policy were made to conform to the natural laws of distribution, the root cause of the business cycle would disappear.

9. When the government says the country is at “full employment point”, why are a significant number of people still involuntarily unemployed? (The Boom/Bust Cycle) **Ans.** The government is not counting everyone who would work if there were enough jobs for everyone who was willing and able to work. Also, wages and benefits are often so low for the least skilled workers, that some people who are receiving subsistence with welfare, find that acquiring a job would not improve their wellbeing. “People seek to satisfy their desires with the least exertion.”

10. What are the two ways in which land speculation retards the economy? The first way is that it pushes labor and capital to less potentially productive locations, reducing the results of labor and capital. The second way is that it causes unemployment; the less people are employed, the more it diminishes the total production of the country.