Henry George

1839-1897

Economist & Philosopher

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

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

Henry George

*G*eorge lectured on his ideas throughout the United States and Canada. He also lectured in England, Ireland, Europe and Australia. He was twice a candidate for Mayor of New York. In 1886 he came close to winning (many say. he was counted out), and in 1897, when it was felt certain he would win, he died a few days before the election.

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

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

Influence

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

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

Comparisons

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

Appreciations

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

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

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

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

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

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

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

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

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

These notes for the Progress & Poverty course were compiled by Chuck Metalitz, plagiarizing extensively from work by Mike Curtis, former director of HGS/Philadelphia and HGS/New York.

Lesson 1: Introduction to Henry George and the Problem of Poverty

Based on the American classic, *Progress and Poverty*, Fundamental Economics presents (in ten two hour sessions) the production and distribution of wealth. In the process it reconciles what George considered the paradox --- why, in spite of all the new inventions, innovations and new discoveries that increase the results of labor, the general rate of wages does not go up; why so many people who are willing and able to work, are unable to exchange their labor for the products of other people's labor; why, although the factors of production remain potentially the same, the economy stalls in recession or depression with significant segments of the work force unable to participate for many months or even years.

What is poverty?

To Henry George it was obvious: poverty is the condition under which the ordinary worker cannot earn a decent living. If good jobs are available to all who are willing and able to work, the problem of poverty is solved. What about those who cannot work due to disability? In a labor-short economy, employers will try to find ways to use their services. And we assume that charity would be available for those who are unable to work at all.

Labor is applied to the natural resources. We separate, combine or change them in form or in place. First, we produce the capital goods --- tools, machines, buildings seeds --- which we use to give our labor a greater efficiency in producing consumer products. Everything that aids in getting raw materials to the consumer in the desired form, is part of production.

In every direction there are examples of the increase in productivity --- robotics in auto assembly, factory built homes, and skyscrapers that are built a truckload at a time in a few months. There are power tools in virtually all occupations, from nail guns to cash registers that inventory as they scan each product in a fraction of the time it once took. Yet, the general rate of wages tends to remain constant. Occasional increases in the legal "Minimum Wage" may compensate for the generally rising cost of living ("inflation").

How technology makes unskilled labor more productive

Take the classic example of the burger stores. The cashier pushes pictures of the different products -- double cheeseburger, large coke, small fries -- and the register adds them up. It even tells you how much change to give the customer. There's nothing to write, nothing to add. The high school dropout can process your order faster than any college graduate with a cash drawer and a pencil and paper. Because of technology, less education and skill produces a greater result

Even in the best of times, when the economy is considered healthy and far from recession, there are millions of Americans who are judged to be unemployable --- incapable of producing enough value every hour to be paid the legal Minimum Wage. How do we explain it? Technology is constantly increasing the productivity of low-skilled employees, but millions of people continue to be unemployable.

In completing this course, students not only understand what keeps wages static, causes unemployment and the business cycle, but what political institutions would raise wages in harmony with each new technology, and create full employment at all times. Students will explore the requisites of equal and shared opportunities, freedom, justice and the law of human progress.

Lesson 2: Defining Key Terms; Source of Wages

READ: P&P Book I, Supplement Lesson 2
Terms are labels, which refer to categories of things with common characteristics --- that function in similar ways. The terms of political economy go back more than 200 years. However, as a discipline, political economy is still evolving. Each writer or institution may use the same terms to include or exclude things with different characteristics in order to project their own understanding of the science. There is yet no absolute convention. Even the definition of political economy differs with different writers and institutions.

We ask the student to think of each term, as merely a short cut or label which refers to the definition of a factor or concept to be considered within the course. Not only will some of the following terms refer to different definitions than those of other institutions of political economy, but from the same terms when used in common speech.

The primary way that people satisfy their desires, is through the production and consumption of products. These products <u>satisfy human desires</u>, are <u>made by human exertion</u> out <u>of natural materials,</u> and have a <u>value in exchange.</u> They exchange equally for other products requiring similar efforts to produce or otherwise acquire. We label products with these four characteristics, ***wealth***.

Therefore, Political Economy is the science which treats of the nature of wealth, and the natural laws that govern its production and distribution. It is the study of how civilized people make a living.

Three factors of production

The three factors of production are defined below. The passive factor, which includes everything that exists in nature, except people and their products, is called ***land***. As you can see, it includes oil, air, oceans and lightning. The second factor, which includes all human exertion used to make exchangeable products, is called ***labor***. Therefore, it includes not only physical, but mental exertion as well. It includes the work of managers, entrepreneurs, and slaves. The third factor refers to all products used to produce more products for the market, including those in the course of exchange. That is to say: all wealth that is expected to afford an income is labeled ***capital.***

LAND	LABOR	CAPITAL wealth
The entire material universe, excluding people and products	Human exertion resulting in exchangeable products	Exchangeable products ***which aid in production***
-------------------------------	---------------------------------	***They must be:***
Examples	*Examples of*	**1. Material; 2. Produced; 3. Satisfy human desire; 4. Have value in exchange.**
	People who perform labor	-- **Examples**
Minerals in the ground --- oil, iron, gold, water, dirt, and stone --- lot under a house, fish in the ocean trees in a natural forest, wind, lightning.	Mechanic, carpenter, factory-worker, truck driver, salesman, researcher, General Motors executive, slave.	Tools, machines, buildings, crops on a farm, oil in a ship, Taxi cab, Products for sale.

The next chart starts with exchangeable products that are held by the ultimate consumer. They are termed wealth. Since they do not aid in production, they are not capital. All capital is wealth, but all wealth is not capital. The next category is exertion applied directly to human desires. No product results, so it is termed service. In the last box are things of value, which only represent, but are not wealth or land. Paper money is only a medium of exchange, and human attributes are qualities of labor.

Non-capital WEALTH	SERVICE	NOT WEALTH
Exchangeable products **Held by ultimate consumer** ***They must be:*** **1. Material; 2. Produced;** **3. Satisfy human desire;** **4. Have value in exchange.** ***Examples*** **Owner occupied house (Bldg.), food in your home, personal car, clothes and TV.**	**Human exertion applied directly to the satisfaction of human desires** -------------------------------- ***Might be performed by*** **Doctor, Dentist, teacher, singer, divorce-lawyer, etc.**	***Stock certificates, car- title*** ***Real estate deed,*** **may represent wealth but are not themselves wealth.** ------------------------------ **Medium of exchange** ***Money,*** *has value only because it can be exchanged for wealth* ------------------------------ **Human attributes** ***Skill, Knowledge, Intelligence***

Land is not what we have termed wealth because it was not produced.

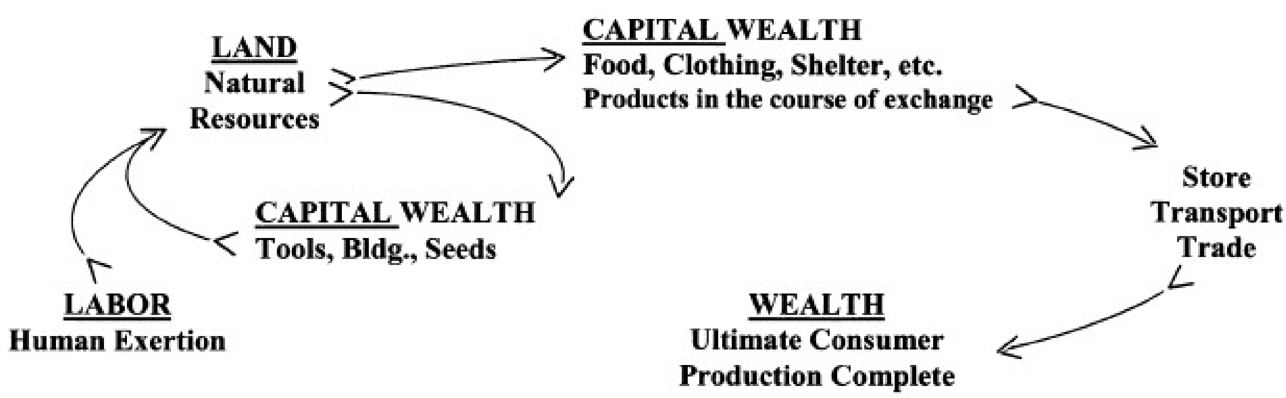
Bank notes, stock certificates and bonds are not what we have termed wealth because even when they relate to wealth, they are not the products, only claims on them.

Knowledge, skill and experience are not termed wealth because they are not products, but qualities of labor.

Production is the process of getting a natural resource to the consumer in the desired form.

PRODUCTION:

It includes combining, separating, and changing natural substances in form and in place.



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

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

Some wealth is capital and some is not. Whether a particular article of wealth is capital depends on whether it is used to produce wealth. A truck used on a commercial farm is capital; a truck used to go camping for fun is not.. A television on the shelf in a store is capital; a TV in your home is not.

Transporting and selling are part of getting a natural resource to the consumer in the desired form; therefore they are part of production.

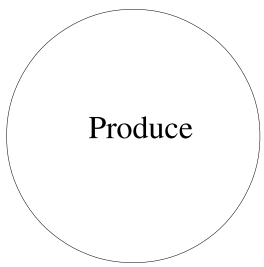
Production is complete when the product is in the hands of the ultimate consumer.

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

Land

Labor

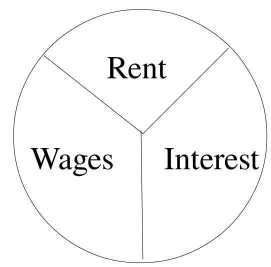
Capital



landowners get *Rent*

laborers get *Wages*

capitalists get *Interest*



Rent is taken by the owners of land. Wages are taken by labor. Interest is taken by the owners of capital. In common speech we talk of renting a house or apartment, but in political economy rent is paid for the land and interest is paid for the building. We rent a truck or a tool, but in political economy trucks and tools are capital, their owners are paid interest. Rent is paid by the user to the owner of land. However, in political economy, that portion of a farmer's crop, which results from his ownership of land, is also rent. That portion of the income of a storeowner, which results from the location of his store, is rent.

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

Production and Wages

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

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

Governments provide food, housing and medical care totaling billions and billions of dollars in an attempt to alleviate poverty, yet it persists. In fact, **the legal minimum wage in Chicago is probably not enough to live on**, certainly not enough to support dependents, without subsidies such as food stamps, subsidized housing, medicaid, etc.

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

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

When workers are paid with money, the result is no different from paying wages in kind. The money simply represents the wealth produced.

Labor precedes the payment of wages. First labor produces wealth, then wealth or money that represents it, is paid in wages. So no capital is required to pay wages.

When a worker is engaged in a long-range enterprise, the product of which cannot be put into exchange immediately, like a large ship, the amount of capital is never lessened before wages are paid. The value of her labor is adding to the enterprise. The product of labor precedes and stands in place of the wages paid. When erecting a high-rise building, as each floor is added, the value of the building is increased. The value each worker has added each week is exchanged for the wages paid.

Wages always come wealth produced by labor, never from pre-existing capital.

It is sometimes assumed that the maintenance of labor is drawn from capital. That is to say: food clothing and shelter produced in the past are necessary to sustain each worker as they engage in current production. Therefore, the profit, or return to that wealth (capital) will have a converse effect on the rate of wages. However, in reality we live on production currently in progress. Some workers are producing food, while others are building ships. This is obvious when we think how long we could go on consuming if everyone stopped producing altogether. When construction begins, there is no need to have a stock of food large enough to support the workers until the ship is completed. With money and credits, food is traded daily as it is produced for the value added to the partially completed ship.

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

In advanced countries, in times of recession or depression, unemployment and poverty coexist with an excess of capital. Buildings and machinery are often siting idle and deteriorating while poverty and slums are increasing. So **lack of capital cannot be the cause of poverty** there either.

Lesson 3 --- Population; The Law of Rent

READING: Book II, Book III chapters 1 and 2; Supplement L3

Population

[Supplement – Lesson 3 contains some population and related data which needn't be repeated here.]

The Malthusian theory (from Thomas Robert Malthus, who published *An Essay on the Principle of Population* in 1798) was advanced to explain the persistence of poverty. It held that the tendency of population was to increase faster than subsistence. It hypothesized that population increased in a geometric ratio like 2, 4, 8, 16, and so on, while the tendency of food production was to increase in arithmetic progression like 1, 2, 3, 4, and so on. Therefore, population would always tend to increase faster than food, and hunger would always be present.

But this theory isn't consistent with the facts. Many countries increased their agricultural yields faster than their populations. In fact, as nations achieve prosperity, population tends to drop, or increases only due to immigration from less prosperous places. Places with high concentrations of population may not produce enough food to feed themselves, because they can do better producing other kinds of wealth, which they can exchange for food. Worldwide, food supply problems tend to be surpluses rather than shortages, and when famines occur in a local area the difficulty is distribution of food, not production.

What if Malthus is right, but the limitation isn't food but energy, or carbon absorbtion? There is debate as to whether these are truly serious concerns, but in any case they cannot be shown to be the cause of poverty.

So we conclude that **a population too large for existing natural resources is <u>not</u> the cause of poverty.**

The Laws of Distribution

We have found nothing in the production of wealth to explain the persistence of poverty. Therefore, we focus on the laws of distribution. In political economy the distribution of wealth refers to the division of wealth among the factors that produce it. There are predictable patterns of human behavior --- known as the natural Laws of Distribution.

The laws of distribution determine how much of each product belongs to workers as wages; capitalists as interest; landowners as rent. The three avenues of distribution account for the entire product. Taxation and portions of wealth that go to monopolies or theft may be considered as simply reducing the amount of wealth produced or as though that portion of wealth were not produced, until we see what the natural laws of distribution are. After we establish the natural laws of distribution, we can see what effect legislated diversions of wealth have upon it.

Wealth is not always divided into three parts. The land might be available for free, and there might be no capital used.

Capital is not a necessary factor in the production of wealth. If it were, it would be a dilemma --- you would have to have the results of labor before you could expend any labor. It is certainly a rare event when people do not use any capital at all. However, a person could pick berries in a field. The picking is labor, the picked berries are wages, and if the picker eats the berries there need be no capital involved. However, labor without the use of capital, is very inefficient. Capital is produced, and then used to give labor its maximum efficiency

Profit is not a term of political economy, and we won't use it. It is an accounting term, and the profit of an enterprise could be any combination of wages, rent, and interest, depending on how the operation is financed. In political economy, the terms rent, wages or interest are used in place of the term profits to indicate the distribution of wealth.

The Law of Rent

To reiterate, in common speech we pay rent for the use of a house, car or a tool. In political economy, rent is the gain from land only. **That portion of any product, which can be claimed because of the ownership of land, is called rent — even if the owner and user is the same person.**

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

Very productive land might have high rent– or no rent– depending on how its productivity compares to that at the margin. In agriculture, it is not only superior fertility, but also nearness to markets that make some land more productive than other land. In mining, productivity relates to the cost of extraction and transportation to factories and markets. In commerce, productivity relates largely to the number of potential customers.

> **The law of rent:** *The rent of land is determined by the excess of its produce over that which the same application of labor and capital can produce from the (best free land) least productive land in use.*

The only way we know that land will yield rent, is when people are willing to pay for its use. In today's economy, land may be purchased instead of rented, but the purchase price is based largely on the rent (we will return to this later).

The highest rents are found not on land rich in natural resources, but in centers of population and production. Land is necessary not only for production of wealth, but for other satisfaction of human desires, including services and housing. The same principles apply.

The laws of wages and interest, taken together, can be inferred from the law of rent. The sum of wages and interest will be total production minus rent.

Page 2 of Supplement Lesson 3 provides a more complete explanation of the law of rent.

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

READING: Book III, Chapters 3-8; Sup L4.

In establishing the law of rent, we considered wages and interest together. We now proceed to study of the laws of interest and wages separately. We take interest first, because wages are the ultimate object of our study.

The Cause and the Law of Interest

To reiterate, interest as used in political economy refers only to the return on capital --- tools, buildings, products to be sold, etc. It does not include the payment for the loan of money. Land, remember, is not capital, because it was not produced. The payment for land is rent. Only in cases where stocks or bonds represent a claim on capital (products of labor), are their dividends and other returns, economic interest.

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

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

Labor, with the use of capital, produces wealth. How is it determined, how much of the product goes to the workers, and how much to the owners of the capital? In other words, why is the person who borrows capital, expected and willing to pay back more than is borrowed?

Our first thought is that capital increases the results of labor. Therefore, interest is the reward for greater productivity. But interest is usually much less than the productivity increase. Consider a seamstress. Perhaps she can make a dress in a week using needle and thread. With a sewing machine, she can make five dresses in a week. Will she pay 4/5ths of her production for the sewing machine? Of course not. So the increase in production which capital makes possible doesn't determine how much interest will be paid. What does? [George has an extensive illustration on pages 177-180, illustrating that often a worker can make his own capital rather than pay interest.]

To handle this question, G**eorge distinguishes three ways in which capital can assist production**: Adapting, growing, exchanging. **Adapting** is what we commonly think of as manufacturing, and would include the dressmaker's labor. Production only occurs while labor is being expended.

Growing refers to using the processes of nature. For instance, if you plant seeds, the seeds when planted are capital. During the season, they grow into a crop, and although you may exert labor to protect and fertilize the plants, the work is really done by nature and time. In **exchanging**, the capital is the inventory whose value can be increased by transporting it from a place where it is cheap and plentiful to a place where it's scarce and expensive.

So how does this relate to interest, the cost of capital? Capital is wealth, wealth is a product of labor, wealth tends to wear out and needs replacement, so in the long run the different kinds of capital are interchangeable. **The cost of different types of capital will tend to equalize over time** (If I can make more supplying sewing machines than raising livestock, I'll redirect my labor in that direction.)

Sometimes capital yields an exceptional increase, like the value of wine from an extraordinary year for the grapes. Sometimes capital yields little or no increase, due to a blight or a drought. The greater the risk, the less competition, and the higher the returns. Therefore, in the long run, interest tends toward a common level.

The minimum return that can be obtained for the use of capital, is the return of capital. That is to say, a value equal to the one loaned. Otherwise, there would be a penalty for lending capital.
People will borrow capital only if they gain more than they would have gotten, had they first saved up their own capital and used it. Those who own capital will only loan it if they are paid more than they would have gained by keeping it and enjoying the increase in its value.

The normal point of interest will tend to settle around that point which will make the rewards of labor and capital equally attractive, that is, will give an equal result to either for an equivalent effort or sacrifice made. (Full elaboration Progress and Poverty pg.195 - 199)

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

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

Suppose there was a shortage of dressmakers in relation to sewing machines: Wages would go up and more people would become dressmakers. This would continue until there were more dressmakers than sewing machines.

Where land is free, the general rate of interest will be proportional to the total value resulting from the advantage of time in the use of existing capital. This is also the least productive land in use, since no particular land would be used while superior land was free.
But where rent has arisen, if there is a greater advantage of time on superior land, that greater value resulting from the use of existing capital is taken as rent.

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

The Law of Wages

In a complex society we find great differences in wages --- different skills and abilities; agreeableness or disagreeableness of occupations; expense of learning them; etc. These act through supply and demand to determine individual rates of wages.

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

To reiterate: where land is free the entire product goes to the producers. (Labor and capital) When rent arises, *"wages are determined by what labor can produce on the best land that is free."* This is the law of wages.

If all natural opportunities were reduced to ownership --- there were no free land, wages and interest would fall to a bare minimum --- to an amount below which productivity would also fall. The least productive workers would be hungry and weak; the skilled workers would lose the incentive to learn their skills and accumulate knowledge; and the incentive to loan capital would be lost. This will be fully elaborated in the next lesson.

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

Correlation of the Laws of Distribution

There are two axioms upon which all economic reasoning is based:
1. "People seek to satisfy their desires with the least exertion."
2. "People's desires are unlimited."
These are self-evident truths that are never questioned until stated. We may desire fresh air and exercise, so we take the long way home through the park, but that was our desire, rather then getting home faster with fewer steps. We may want to help others, or accumulate more knowledge. We may even want to consume less food, but there is always something else we want. It is, therefore, with great confidence that we apply these axioms to the laws of distribution.

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

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

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

Lesson 5 — The Effects of Material Progress ; Boom and Bust

READINGS: P&P Book IV and V; Supplement L5 and L6; Mason Gaffney Interview

In this section we explore the effects of material progress on the distribution of wealth, with particular attention to its effect on

(1)total production per capita; and

(2) the proportion of the total that goes to wages.

We consider two types of material progress. **Growth**, which generally means increasing population, **and inventions**, which includes technology but also advances in government or community services.

Effect of Growth

The increase in population extends the margin of production (free land) to less productive land. However, the increases in population also makes possible a greater division and specialization of labor, and trade. On balance, the **average production, wealth produced per person, is likely to increase**, as the advantage from division of labor on the most productive land outweighs the loss from extension of production to less productive land.

However, since the margin will fall, rent as a share of production will inevitably increase. Therefore **wages and interest will fall as a proportion of wealth produced, but may or may not fall in absolute amount per capita**. This depends on the specifics of each situation.

The rent and the increase of rent are not due to anything that the landowner, as a landowner, has done. The rent and the increase of rent are due to the increase of population.

Effect of Inventions

Inventions, innovations and new discoveries enable the same result with less labor, or a greater result with the same labor. Labor saving inventions enable other things to be produced with the time saved, increasing total production.

You can't make something out of nothing, and you can't make nothing nowhere. As the efficiency of production is increased, the demand for land goes up. More materials are mined to make more products; more farmland can be cultivated with machines for better tasting food; special land is used for manufacturing and trade. The better land is used more intensely, and new land is brought into production.

The increased demand for land extends the margin. The free land opportunity is potentially less productive, and **wages and interest fall as proportions, increasing rent**. Whether this will reduce wages depends on how the productive potential at the new margin (with benefit of new inventions) compares to productive potential at the old, higher, margin (without benefit of new inventions.) So **wages and interest, as an absolute amount per capita, may rise or may fall, but will certainly be a smaller proportion of total production**.

Not every single innovation that increases production directly lowers the margin. For instance, the elevator enabled land to be used more intensely. It slowed the extension of the margin, by creating the potential for greater production on particular lands. Therefore, it also increased rent as amount and a portion of the product, even without lowering the margin. But by making some kinds of production more efficient, the elevator also allowed more labor to be devoted to other kinds of production, probably resulting in a lowering of the margin

Governmental expenditures, such as roads, bridges, sewers, drainage and irrigation projects, have a similar effect. They make particular land more productive, which frees some labor to work on other lands.

Effect of land Speculation

As it becomes evident that the rental value of land increases as the community progresses, people tend to acquire and hold more land than they need. They speculate that population and the rental value of land will increase. That is why the first settlers to a region try to get more land than they need. People sometimes buy land and hold it for the increase in value.

Holding any land out of use, whether it is mineral land, farmland or land in cities, prematurely extends the margin and lowers wages and interest. Under use of land, like a surface parking lot in the Chicago loop, has the same effect. Every American city has many underdeveloped sites. They range from slightly less than the highest and best use, to completely vacant. This increases the sprawl of suburban development, increases the demand for farmland, and prematurely destroys the wilderness.

Land speculation, which means holding land for the increase in value, is not always profitable. Sometimes land values fall. Sometimes the holding costs offset the gains. However, land speculation always reduces production by moving labor and capital to less potentially productive land. Under use of land in cities moves people to less productive rural areas. It reduces the results. It also creates an impediment to cooperation. It separates people who would be more efficient in closer proximity. It increases the cost of the infrastructure --- more roads, pipes and wires ---and the time and distance of transportation. In both ways land speculation diminishes production.

Land speculation extends the margin lower than it would otherwise be, which reduces wages and interest. If there is no free land, then workers and owners of capital have no alternative to paying rent, and wages and interest tend toward the minimum.

We think of distribution in terms of making consumer products. It also applies to housing. When the rent of land is high, and land is subject to speculation, then housing becomes more difficult to afford. While there may be inexpensive housing on cheap land, the land is cheap for a reason. Usually it’s because it’s not near jobs, so what people save on mortgage payments they spend, in time and money, on travel.

Although there is no frontier, the population continues to increase, inventions continue to replace some workers, while enabling others to work more land, and more land continues to come into production. However, even in the best of times, some land is withheld from production. The difference between the amount of land needed to employ labor and capital, and the amount of land actually in use will equal the level of unemployment.

It will be the least skilled and educated who are unemployable, but no increase in education or skill can change the fact that jobs require land. You can’t make something out of nothing.

The following page contains a series of charts illustrating the effects discussed in this lesson. It may be helpful in clarifying these principles. If it isn’t, just ignore it. The Supplement to Lesson 5 contains another illustration.

Chart 1. Land that yields 6 is still free to labor and capital. Wages & Interest = 6

Wealth Produced	9	8	7	6		5	4	3	2
Wages & Interest	6	6	6	6					

Rent	3	2	1	0					
	Land already owned				Land still free				

Chart 2. More people arrive. Margin extends to 5 land. Wages & Interest fall to **5**

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

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

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

Chart 4. Inventions, infrastructure, police etc. increase production.

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

Chart 5. Greater efficiency requires more land. Margin extends. Wages & Int. are 16

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

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

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

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

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

Wealth Produced	36	32	28	24	20	16	12	8
Wages & Interest	3	3	3	3	3	3	3	3
Rent	**33**	**29**	**25**	**21**	**17**	**13**	**9**	**5**
	All land already owned --- No free land							

The number "3" was picked arbitrarily. Everything above 3 equals rent.

Land Speculation and The Winner's Curse

Supplement – Lesson 5 has a discussion on "Land Rent and Selling Price." After you read that example, let us extend it to see how land speculation works, and why users tend to overpay for land.

In the example, the parcel rents for $10,000/year, of which $4,000 goes to taxes so the net to the owner is $6,000/year. The interest rate on safe investments is assumed to be 6%, so the seller might calculate that, to get $6,000/year, he needs to get $100,000 for the land. But, in fact, that's not likely. More likely, the seller will say, "If I put $100,000 in the bank, I'll get $6,000/year, and I'll be able to get my $100,000 back when I withdraw it. But, if I keep the land, it probably will go up in value, and who knows how much it will be worth in ten years? Maybe $150,000? So I should get more than $100,000 for selling it."

The buyer also knows that land prices tend to increase, and all sellers of other parcels know that too, so the actual price will almost certainly exceed $100,000. How much will it be?

Let's suppose the seller decides to hold an auction, and there are nine serious prospective buyers. Each is familiar with the local real estate market, and each has his own opinion of what the land is worth. Below are their estimates.

Prospective purchaser	estimate of value
Joe	$100,000
Bob	$105,000
Cedric	$122,000
Lynn	$124,000
Myrna	$125,000
Dalip	$126,000
Frank	$127,000
Elvis	$150,000
Felicia	$170,000

So how much is the land actually worth? And how much will it sell for?

The median estimate is $125,000. The mean estimate is $127,667. In the absence of any other information, and given that we have said these people are knowledgeable, the best guess of actual value of the future stream of land rent is probably near these figures.

But since this is an auction, assuming that Felicia has financing, the land will go for over $150,000, maybe as much as $170,000. Could she be correct? Possibly. But eight out of nine people think she's too high.

This is called the winner's curse: Whoever wins the auction will pay a price that the other bidders think is too high. So whoever wants to use the land will have to pay what most think is "too much." This would not occur if investors did not expect to benefit from increasing land prices.

Felicia might still charge the renter who was using the land just $10,000, but unless there's a very long term lease, anybody who wants to use this land will have to pay more than most knowledgeable people think it is worth. We can already see how this makes productive activity more costly than it would be in the absence of land speculation, and in the next lesson we will see how it helps bring on recessions.

Also, although most real estate sales don't literally use auctions, the seller relies on an agent or appraiser to get the best net price, so we can assume that the actual transaction price isn't too much less than the agent or appraiser estimates could have been obtained by auction.

Boom and Bust

The cyclic expansions and contractions of employment (recessions / depressions) within the economy. In concept these are simply intensifications of the general conditions of low wages and unemployment.

There are many factors which tend to intensify and expand the effects of a depression or recession --- the interdependence of producers and consumers in which workers who are unemployed reduce their demand for the products of other people's labor; the sharp alteration in the velocity of money (number of transactions) and the volume of credit. Protective tariffs sometimes enacted to counter unemployment have a converse effect. However, the fundamental force in bringing about the recurring cycles of increased unemployment is labor's inability to access land.

As technologies advance, the same amount of labor and the same value of capital yield greater product on any particular piece of land. In many cases, by reducing the price of products, companies can so increase their volume of sales, that it more than compensates for the lower revenue per item. And it often requires more land to expand production. During periods of great technological advance, like the railroads of the nineteenth century, or cars and trucks of the twentieth century, the price of land increases rapidly and creates the expectation of even greater increases. As business strives to expand and increase their production, they bid up the price of land. Though owners of idle land do not receive any income from the land, the value of their asset increases. As long as the value of their land increases faster than the interest on a capital investment, the idle land is a more lucrative asset. If you owned a piece of land, and every year someone offered you 10% more than you were offered the year before, and the current rate of interest was 6%, you would simply hold the land for the future increase in value. Even if the real estate tax were 2%, you would still be better off. And income tax laws, which allow you to postpone your gain, further increase the incentive to hold.

The more the economy expands, the higher the price of land is bid, and the more profitable holding it as an investment becomes. At some point businesses find it more profitable to lay off workers rather than expand production. In short, when new inventions reduce the labor necessary to produce a product, the natural tendency is not to lay off workers, but to lower prices, expand production and increase revenue through increased volume. But, when too many land speculators refuse to sell, it becomes more profitable to lay off the workers.

In turn, the unemployed carpenters stop buying new cars; the reduction in the demand for cars requires fewer people to make them; the unemployed auto makers stop buying refrigerators; the unemployed refrigerator makers stop buying new houses, and so on. The reduction in demand reverberates throughout the economy in a cycle of recession or depression.

As unemployment reduces the demand for goods and services, wages and interest fall, aggregate production falls; the price of land stops increasing and begins to fall. However, land speculators, like other investors, consider short term versus long term. They try to hold on as long as possible, figuring that in the long run prices usually increase. Suppose you bought a parcel years ago for $100,000, and were told more recently that it was worth $1,000,000. Comes a recession, if someone offers you $800,000 you feel that you'd "lose" money selling at that price. You'll try to hold on for a recovery unless you're forced to sell.

Eventually, some landholders do sell. One (or more) of three things happens.
#1.The price of land falls.

#2. Technology or other improvements allow increased production, helping to support the price of land without reducing wages and interest.
#3. Wages and interest fall.

By some combination of lower wages and interest, greater productivity and reduced land prices, land becomes affordable, people go back to work and the recession/depression is over. As productivity is enhanced, the economy expands, the selling price of land is bid up again and speculation increases, the seeds of the next recession/depression are already sown.

When a company buys a piece of undeveloped land, they not only have to pay for the land, but they also have to acquire enough capital to maximize the potential of that land. If they have to borrow any part of the price of the land or the capital, the rate of commercial interest on that loan will affect the profitability of their venture. Sometimes the Federal Reserve increases the supply of money, and reduces commercial interest rates. This would make the selling price of land more affordable, but also tends to raise that price.

Other ways that governments might make land is available for productive activity are by invading another country, or by compulsory sale thru eminent domain.

Lesson 6: Ineffective Remedies; George's Proposal

READINGS: Book VI; Supplement L7

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

Economy in Government. Were we to economize government, we could lower taxes. In countries where there are no safety nets, employers would soon find that workers would continue to produce as much with lower pay. They would not get weak or sick, as they would be getting the same quantity of food clothing and shelter as before. Skilled workers would enjoy a greater reward for their superior productivity. Others would learn the same skills and knowledge. The supply of superior workers would increase until the competition for the same number of jobs brought wages back to the previous level. All the savings would go to landowners and other monopolists.

Increased Education and Better Habits of Industry & Thrift. It might be possible to increase the general level of education, either by diverting government revenue from wasteful expenditures, or by shifting the individual focus from recreation to study. In the case of an individual who increases her personal level of skill and knowledge disproportionately to the general population, her wages and standard of living go up. However, when the general level of education increases, it simply raises the minimum level of productivity required for employment. When the vast majority of people could not read and write, those who could, commanded measurably higher wages. Now that more than 90% of Americans can read and write, those skills are basic requirements for even the lowest paying jobs. The same thing would apply to better habits of industry and thrift.

Labor unions have sometimes succeeded in raising the wages of their members. Generally, it has been in industries where there was a monopoly like government, railroads or the telephone company. Sometimes there is a partial monopoly like the auto industry or the steel companies. In those cases, patents and international trade barriers enable higher profits out of which they can pay higher wages.

However, raising the wages of some union members doesn’t raise the general rate of wages. As union jobs become more desired, they become more difficult to obtain. Soon, one cannot get a good union job unless one has special connections, or simply good luck.

Theoretically, a union of all workers could raise the general rate of wages, but without such a comprehensive organization, since labor unions do not affect the margin of production, they cannot raise the general rate of wages.

Cooperation is a system under which either a group of workers are their own employer, or a group of consumers are their own supplier. Either might be a way to improve efficiency and increase production. While a cooperative <u>might</u> benefit its members, any general imrprovement resulting from it would have the same effect as other forms of progress– to increase rent. Share cropping is a case of cooperation where the producers and landowners have eliminated much of the risk and the necessity to advance the rent --- but it has in no way increased wages. Nor has it given workers more of what they produced.

Governmental direction and interference have alleviated poverty. State run farms in other countries have fed large numbers of people. Social security deductions and the subsequent payments have been a blessing for many poor people who are unable to work. However, government direction and interference tend to inefficiencies and attempts at evasion. They have not eliminated poverty.

Land reform or land redistribution has helped many people in impoverished countries. However, where it has been implemented, it has simply increased the number of landowners. Unless everyone gets land with the same value, it is inequitable. And by dividing the land in individual parcels, it would have to be re-divided every time the population increased. Although not irreconcilable, individual parcels of land would not be the most economical size. In agriculture for example, individual plots would usually be too small for mechanized farming.

> "The world has never had a good definition of the word Liberty. And just now the American people are much in want of one. We all declare for Liberty; but in using the same word we do not mean the same thing. With some the word liberty may mean for each man to do as he please with himself and the product of his labor; while to others the same word may mean for some men to do as they please with other men and the product of other men's labor. Here are two, not only different but incompatible things, called by the same name, Liberty. And it follows that each of these things is by the respective parties called by two different and incompatible names, Liberty and tyranny.
>
> The shepherd drives the wolf from the sheep's throat, for which the sheep thanks the shepherd as his Liberator, while the wolf denounces *him* for the same act---plainly the sheep and the wolf are not agreed upon a definition of Liberty".
>
> Abraham Lincoln

Henry George proposed a remedy:

For the abolition of poverty, he wrote: "**We must make land common property.**" All people must have equal rights to the bounty of nature

Lesson 7 — The Remedy; Its Justice

READING: Book VII; Supplement L8

But landholders need to have exclusive control of their land, to secure their crops or buildings, conduct their business and maintain their homes. Title to land insures the ownership of wealth and the exercise of freedom. However, **if** at the same time, **each landholder paid to the community, the rental value of the land they held, it would satisfy everyone else's equal right to the same piece of land. In this way, all land would be common property.**

Henry George asserts that **before we ask whether the remedy will work, we must ask whether it is right**. First, it must pass the test of justice.

Everyone has an equal right to life, and human beings cannot live without land, by which he means all natural resources. To assert that some people have a greater claim to land is the same as saying that some people have a greater right to life. Therefore there is no justification for absolute ownership of land by some to the exclusion of others.
If, every time a person produced food, clothing or shelter, it was taken away from them, their right to life would be taken away as well. If any part of what a person produces at the margin is taken away, then, to an equal extent, their right to life diminished. The margin is a free and equal opportunity. **The rightful basis of ownership (property) is production**. It is the right to the fruits of one's own exertion — to enjoy, to use, to exchange or give to others.

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

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

The term real estate often leads to confusion in determining the rightful basis of property (ownership) because it includes buildings, which are produced, with land that is not. The term originally meant Regal or Royal Status. Land was assigned with conditions by the king.

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

Private property in land is a more efficient mechanism for taking what other people produce, than chattel slavery. When there is no free land, the least demanded workers are paid enough to get food, clothing and shelter --- just enough to keep them strong --- the same as the cost of keeping slaves. The workers do not have to be bought or chained. If they get sick and die, the landlord loses no investment.

The Rent of Land

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

Rent is determined by the margin of production. It measures exactly, the value of a superior opportunity over that of land that may be freely had by any member of the community. In other words, it measures the advantage.

The rent does not arise from anything the landowner does. If she improves the land by cultivation or excavation the results are capital and the return to those improvements are interest. Rent is the gain that results from a superior opportunity.Because rent represents a value resulting from exclusive assignment of a common opportunity, and an advantage over others, it belongs to the community

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

George's system of land value taxation grants exclusive control of land to individuals and corporations. They are at liberty to direct their own economic activities within the legislated limits of health safety and the environment. However, the community collects the rental value of the land.

This is very different from governmental direction in the production and distribution of wealth. In that case the government owns the land and the capital. It hires the workers and directs them in making and assigning products or service. Factories in the former Soviet Union were directed that way.

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

Most ideologies prescribe a small, medium, or large part of everything that's produced, go to the community. In the Georgist ideology, all wages and interest go to labor and capital respectively, and all rent goes to the community.

Historical Perspective

Private property in land is a relatively recent development. It developed as a result of concentration of power, conquest, and development of specialized classes. Even the feudal system recognized, at least in theory, that the land belongs to society at large. Those who held land had obligations to the larger community, in return for receiving rent, and a large part of the land was maintained as commons.

Early settlers in what is now the United States didn't concern themselves with the issue of land, because the area to be settled was so large in proportion to the population. As the nation developed, the fortunes made from landholding seemed like a lottery in which everyone had a ticket. But in certain situations, such as the gold rush in California, land used by individuals was treated as common property. But after about 1879, with little free land available, we see more clearly the effects of private appropriation of land.

Lesson 8 — The Application of the Remedy

READINGS: Book VIII; Supplement L8

How to make land common property?

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

Treating land as absolute property often prevents its being used to its greatest economic potential (highest and best use). If land were treated as common property, it would be used as soon as it was needed. There would be no incentive to prevent others from using land that was not presently in use.

George evaluates three possible ways to effectively make land common property. (1) The community could purchase land from those who legally own it, but it would be unjust for the community to purchase what it already owns in morality. (2) The community could confiscate land from those who legally own it. However, in confiscating land it would be extremely difficult not to violate the individual right of people to the improvements upon the land, which must be safeguarded. (3) The community could leave title with the current owners, but collect the potential rent.

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

All other taxes should be abolished because the potential rent of land would be taken directly, and wages and interest belong rightfully to labor and capital.

Land value tax evaluated in comparison to other taxes.

In 1776 Adam Smith, writing in The Wealth of Nations, formulated four canons (standards) of taxation: (1)That it bear as lightly as possible upon production; (2)be easily and cheaply collected and fall as directly as possible upon the ultimate payers; (3)be certain, so as to give the least temptation to evaders or corrupt officials; (4) that it bear equally, so as to give no individual an advantage over others. Only a tax on the rental value of land satisfies all four canons.

Taxes on sales, buildings, wages or interest reduce production in several ways. By making production more costly, they prohibit production on the least desirable land, reducing total production and adding to unemployment. In some cases taxes alter the incentives and divert labor and capital from their most efficient endeavor, to one that is artificially more profitable. This also reduces production. The calculation, collection, and avoidance of such taxes also diverts labor from production to nonproductive activity.

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

A tax on the value of land can be cheap to collect. The land cannot be hidden, and if the tax is not paid, the land can be reassigned. There is no need to monitor business or find a taxpayer.

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

In a situation where the user and the owner of land are different people, like a tenant farmer or someone who leases an apartment or office, a tax on the value of land does not increase the value of land. The value of land measures the total of all the advantages that attach to it. Because society collects a value equal to those advantages, does not increase the value of those advantages. Unlike the tax on products, which increases their cost of production and increases their price, land has no cost of production. Land has a monopoly value, which the user pays, or goes without the land. Therefore, a land value tax cannot be passed on to the user of land.

Not only does a land value tax not add to the price of products, but it can be collected with the greatest certainty. Land cannot be moved or concealed.

While taxing wages violates the right of the producer to the product of her labor, taxing the potential rent conforms to justice. It is simply a charge for the monopoly of a common asset.

The rental value of land can be separated from the value of improvements. Although it requires professional training, the highest and best use of a site can be calculated. That is to say: what kind and size of buildings and other improvements will maximize the economic potential of a site. Developers do it every day. Next it must be determined what a building owner would charge for the use, maintenance and management of the building and other improvements. This is a total of management and maintenance fees, depreciation, interest rates and risk factors. By subtracting this total from the amount that could be charged for the use of the building at a given location, the rental value of urban land is determined. Farmland is almost as simple as leasing it to the highest bidder for one year.

The only thing required for public acceptance of the common ownership of land, through land value taxation, is that it be widely understood. Legislators and political executives would have to follow their constituents.

Lesson 9— Effects of the Remedy

READINGS: Book IX; Supplement Lesson 9

Effects upon Production and Distribution

Henry George's remedy– the abolition of all taxes except for a tax collecting nearly all of the rent of land (including natural resources of every kind), would increase production in several ways.

– Removal of taxes on production (sales tax, tax on earned income, payroll tax, etc) will encourage production by making it cheaper and easier to do, thus raising.

– Land will also be more available for productive use (including production of wealth, also housing and other human needs.), since it won't be held out of use for speculation.

– The increase in production will mean more jobs and higher wages, and the elimination of taxes on production will also raise wages received.

– The margin of production will rise, meaning better opportunities available without payment of rent. Therefore no one willing and able to work need be in poverty.

– Increase in production will lead to further increase due to specialization and economies of scale.

– Because land will be more efficiently used, public services and transportation can be more efficiently provided.

Effects on Classes

In addition to the general trends above, people are often concerned about how particular categories of individuals will be affected by George's remedy.

– Homeowners will no longer pay taxes on their houses, though of course they will pay for the land they occupy.

– Aspiring homeowners will find that housing is less costly (see housing cost example below).

– Workers in general will receive higher wages, without taxes taken out, and their purchases of wealth(goods) and services will be untaxed.

– Working farmers will find land more affordable, and will no longer pay taxes on their produce.

– Entrepreneurs will have better access to opportunity (including not only land sites for use, but other natural resources which their enterprises may require.)

– Landholders will no longer be able to collect rent, but as they are usually also capitalists and/or laborers they will receive the benefits noted above.

Social Effects

Government will be simplified, because:

– with the elimination of poverty, criminal activity will be less and morality will improve.

– disputes over landownership and other privileges will be few

– tax collection will be much less complicated

– public debts would be paid off, using the proceeds of the land tax

– standing armies would likely disappear due to the growth of independence and intelligence of the people.

– all kinds of government programs intended to "create jobs" or alleviate poverty will become recognized as unnecessary.

However, government will also provide additional public benefits which can be funded thru the collected rent, such as cultural and recreational facilities.

People in general will be less greedy– because the desire for great wealth follows in part from the urge to avoid poverty, and poverty will be readily avoidable. What people would desire is respect and approbation. They would not become idle, but would work to achieve things that lead to this. More people than at present would be enabled to realize their potential.

Because wages would be higher and labor relatively scarce, employers would have to take advantage of workers' intelligence.

Because society would be so much better in so many ways, even the largest landholders of today would be better off.

Example of the effect on land and housing costs.

It may be helpful at this point to compare the cost of an owner-occupied house under our current system and under George's remedy. In the example below we ignore the increased wages, elimination of taxes of productive activity (other than real estate taxes), and long-term improvement in land use patterns, to concentrate on the experience of an individual in buying a house and lot. The figures discussed in the text are also in the table on the next page.

We will suppose that the rent of our lot today is $22,000/year (line 1 in the column headed "today"). (Of course the homeowner doesn't see this rent as cash, but it represents what she could have received had she rented to land to someone else.) But there is a real estate tax on the land, which we suppose to be $2,000/year (line 2), so the rent received by the landholder is $20,000/year (line 3). If the interest rate is 6%, this capitalizes to $333,333 (line 4). Because landowners expect some gain from speculation (line 5), the actual selling price will be more, perhaps $400,000 (line 6).

The cost of the house itself, exclusive of land, we will assume to be $300,000. Although it may be striking to see a lot worth more than the house on it, that is quite typical with houses that aren't new. $300,000 represents the market value of the structure, taking into account that it depreciates over time.

Housing Cost Example, "today" vs. George's Single Tax, Simplified				
	Item	Today	Single Tax	notes
1	Land rent (annual)	$22,000	$15,000	lower due to higher margin
2	Land tax (annual)	$2,000	$14,250	leave 5% for market
3	Net rent to landholder (1-2)	$20,000	$750	
4	Capitalized value of net rent	$333,333	$12,500	at 6% interest rate
5	Speculative premium	$66,667	none	assume no speculation
6	Total land price (4+5)	$400,000	$12,500	
7	House price	$300,000	$300,000	assume same price house
8	Real estate tax on house	$5,000	none	1.6% effective rate, typical per civic fed.
9	Total price house plus lot (6+7)	$700,000	$312,500	
10	Mortgage at 6%	$50,362	$22,483	30-year, 100% financed, no PMI
11	Total real estate tax	$7,000	$14,250	
12	**Total mort.+real estate tax (annual)**	**$57,362**	**$36,733**	
Conclusion: Under a reasonable set of assumptions, the single-tax might reduce the cost of typical owner-occupied housing by about 1/3rd. Additional savings from higher wages and the absence of tax on labor and materials used in construction are not included.				

Now there is a real estate tax on the house, which we will assume amounts to 1.6% of value. This appears to be a typical level for houses in the Chicago area, according to a recent report by the Civic Federation, and is also typical for many (not all) parts of the US. On a $300,000 structure that will amount to $5,000/year (line 8).

Totalling the value the lot (line 6) and the value of the house (line 7), the total cost to purchase the house and lot would be $700,000 (line 9). If financed by a mortgage with payments equal to 6% of value, the payments would amount to $50,362/year (line 10). Of course real estate tax (line 11) on the house and lot are additional, for a total (line 12) of $57,362/year.

We can compare this to costs under the single tax. Because the single tax ends land speculation and raises the margin of production, land rent is less. We assume it to be $15,000/year (line 1). course, the homeowner will pay nearly the entire land rent as tax. We assume public policy to collect 95% of the rent, leaving in this case $750/year for the landholder(line 3), which implies a land price of $12,500(line 4).

If the single tax makes land speculation unprofitable, there is no speculative premium(line 5) to add to this price (line 6). We assume the same house, same price (line 7) as under today's system. Under the single tax there is no tax on the structure (line 8). We sum the lot price and house price to get a total purchase price of $312,500 (line 9). With a mortgage on the same terms as assumed for today's system, the annual payments amount to $22,483. But we must add the real estate tax (line 11), so the total cost is $36,733/year, compared to $57,362/year under the current system.

Does this mean that, due to our current tax system, housing costs 56% more than it would under a single tax? Perhaps, but we have made a number of simplifying assumptions so the percentage could be quite a bit more or less.

Lesson 10– The Law of Human Progress

READINGS: Book X and Conclusion; Supplement L10.

The Law of Progress

Different levels of civilization are due less to differences that inhere in individuals, and more to differences in society. Traditions, beliefs customs and laws have the greatest affects on the different levels of civilization

The law of Human Progress must explain why past civilizations arose and decayed. It must explain which social adjustments tend to advance and which to retard civilization.

The incentive to progress is the desire to gratify our physical, mental and social wants.

The amount of mental power devoted to progress is that which is left after the non-progressive pursuits of maintenance and conflict.

To utilize this mental power fully, the first essential of progress is “Association”. As people associate in communities, the division of labor becomes possible. This increases productivity and frees mental power for higher pursuits.

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

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

Causes of Decline

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

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

Such inequalities are not a necessary result of social growth. They can be prevented by making proper social adjustments as new conditions arise.

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

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

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

There are social conditions existing today which, if unchecked, may lead to a decline of civilization --- increasing crime and worsening city slums; Riots and civil disturbances; War and preparation for war; Increasing taxes and governmental interference; Land speculation and the constantly rising price of land.

However, by applying the remedy proposed by Henry George, the cause of these problems --- poverty and its attendant evils --- would be solved, and the resulting problems would cease.

The Central Truth

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

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

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

A summary

Labor applied to natural resources produces wealth. Capital, produced by labor, gives labor a greater efficiency. Title to land (the right of exclusive use) is granted to give the producer security to keep the product upon the land. As the best quality land is taken up, population tends to concentrate in communities where their labor becomes most efficient. The owners of the most productive lands enjoy an advantage. This advantage is measured by the relationship between the productivity of better lands to those that are still free (frontier). Wages and interest on all grades of land are equal to the production of labor and capital where the land is free. As the population tends to concentrate on particular lands and the frontier extends to less desirable lands, the advantage on all better lands increase. In the anticipation of increased land values, due to the increase in population, inventions and the functions of government, land is hoarded. Certain portions of all grades of land are held out of use. When all the land is monopolized (there is no free land), wages of the least valued workers fall to a bare subsistence. Wages of superior workers and interest fall to a level below which the supply of skilled workers and capital would not meet demand. Without free land, every increase in production goes ultimately to landowners and other monopolists. The more land is held out of use, the more workers are unemployed. The process of land speculation causes cyclical Intensifications of unemployment, termed recession or depression.

Taxing the full rental value of land will eliminate holding land out of use, re-create the frontier and raise wages and interest to include the value of everything they produce by using the opportunities that are equally available to all. It will insure full employment, and devote the rent of land to social purpose.

THE LAW OF HUMAN PROGRESS (abridged)

Civilization is co-operation. Union and liberty are its factors. . .

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

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

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

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

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

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

Shall we not trust her?

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

Henry George