SUPPLEMENT — LESSON 2

DEFINITIONS

In the study of political economy (or economics) certain words have a wider meaning, others a narrower meaning than in everyday speech. These terms are here defined and briefly explained. These definitions will be used consistently throughout our study of political economy.

Political Economy (or Economics): The science which deals with the nature of wealth and the natural laws governing its production and distribution.

These laws are not the ordinances and statutes enacted by government. They are natural laws that deal with people's efforts in society to procure the material means (wealth) to satisfy human needs and desires. The natural laws of political economy are laws of human behavior. They follow from the first basic axiom of economic behavior: ***that people seek to satisfy their desires with the least exertion***. These natural laws are determined by observing the functional characteristics of the factors of production — land, labor and capital. By taking care to specify the distinctive and exclusive aspects of each factor, we can always be sure of what we are referring to. Then we can build our economic analysis on a solid foundation.

Wealth: All material things produced by labor for the satisfaction of human desires and having exchange value.

To be classified as wealth, a thing must have all of these characteristics:

1) *Wealth is material.* Human qualities such as skill and mental acumen are not material, hence cannot be classified as wealth.

2) Wealth is produced by labor. Land possesses all the essentials of wealth but one — it is not a product of labor, therefore it is not wealth.

3) *Wealth is capable of satisfying human desire.* Money is not wealth; it is a medium of exchange whereby wealth can be acquired. Nor are shares of stock, bonds or other securities classifiable as wealth. They are but the evidences of ownership. None of these satisfy desire directly. Only those things are wealth the production of which, or the destruction of which, increases or decreases the total of goods that administer to human desires.

4) *Wealth has exchange value.* That which will not bring its possessor in a trade, sale or other transaction, something of worth, has no exchange value and consequently is not wealth, even though human exertion may have gone into it. (Examples: whittled wood, a junked car, a snowman.)

It should not be surprising that this strict definition of wealth differs from common uses of the term. After all, land is not produced by human labor — yet it is a valuable asset. Money does not directly satisfy human desires — yet people are quite happy to have it. To individuals, these distinctions make no difference at all; land and money are sensibly considered part of an individual's "wealth". Therefore, we must be careful to distinguish between personal distribution, and the true object of our inquiry: the production and distribution of wealth in society.

Production: All the processes involved in making wealth and bringing it from its place of origin to the ultimate consumer.

Production includes not only the making of things but also bringing them to the consumer. An automobile, for instance, from the extraction of the ore, through the complex procedures of manufacturing and marketing, to the sale to the retail purchaser, is the embodiment of an extensive cooperative effort in production.

The factors in the production of wealth are land, labor and capital.

Land: The entire material universe exclusive of people and their products.

Everything physical (other than human beings) which is not the result of human effort is within the economic definition of land. This concept thus includes not merely the dry surface of the earth, but all natural

materials, forces and opportunities. Untapped mineral resources are land, as are broadcast frequencies. The most important aspect of urban real estate — location — is an aspect of land value as well.

Labor: All human exertion in the production of wealth.

Mental toil is labor as well as muscular effort. All who participate in production by their mental and physical effort are laborers in the economic sense. Thus entrepreneurs as well as blue-collar workers are included. Also, exertion expended in such services as acting, dentistry, teaching, etc., may be considered as labor, as can the assumption of risk. (For the sake of simplicity we are concentrating our attention on the production of wealth. The conclusions we reach will also be applicable to services.)

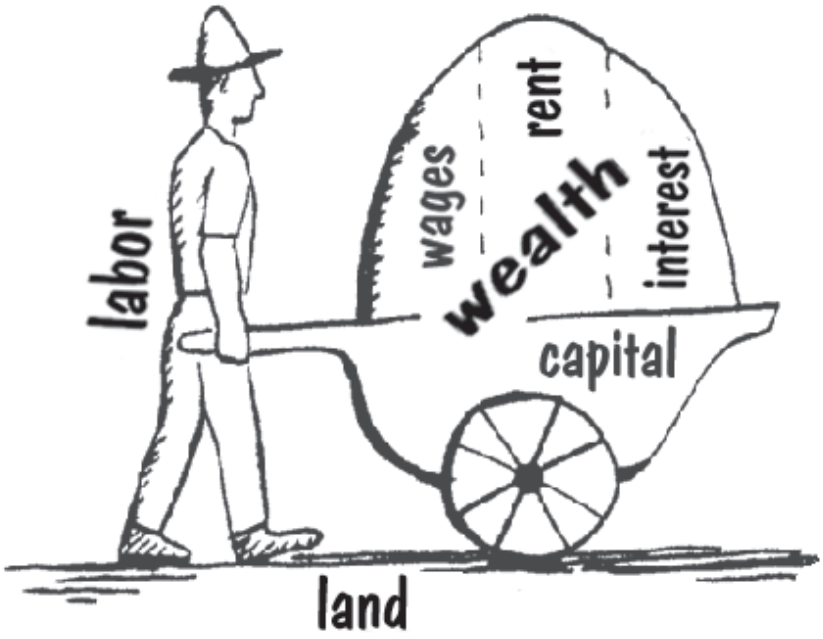
Capital: Wealth used to produce more wealth, or wealth in the course of exchange.

A machine is wealth. If used to produce shoes or other wealth, the machine is wealth that is capital. So also would a merchant's stock of goods in trade be capital. The same items in the hands of the ultimate consumer are wealth that is not capital; the exchange has been completed.

Distribution: The division of wealth among the factors which produce it.

The economic term "distribution" does not refer to the transporting and merchandising of wealth. These processes are part of production. Distribution refers to the division, or apportionment, of the product among the factors of production.

The avenues of distribution are rent, wages and interest.



Rent: That part of wealth which is the return for the use of land.

We commonly speak of paying "rent" for building accommodations, or for hiring an office machine or an automobile. Because of the essential difference between land and capital, such payments are not economic rent. Only that which is realized from land can be properly termed rent.

Wages: That part of wealth which is the return to labor.

Ordinarily wages are thought of as the compensation paid to an employee. Economically speaking, however, wages include the earnings of all whose labor has in some way produced wealth, including the manager of a business enterprise.

Interest: That part of wealth which is the return for the use of capital.

In common parlance, a borrower pays "interest" to a creditor for borrowed money. In economic theory, however, inasmuch as money is not capital, the meaning of interest is different. Reapers and silos are a part of a farmer's capital, which when employed in harvesting and storing wealth in the form of wheat, earn of their contribution to production a portion called "interest".

In general, the terms and definitions used in this course are used with the objective of understanding the social, or aggregate principles of production and distribution of wealth. Accountants and entrepreneurs neccessarily use somewhat different terms and definitions. As we will see in lesson IV, "profit" is a term of personal distribution that does not enter into the study of social, aggregate distribution in political economy.

1. Some Facts on World Population

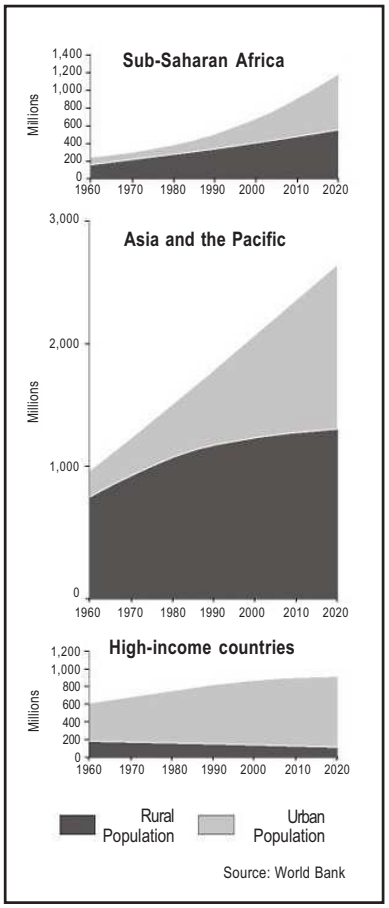
The world's population today is almost 6.4 billion people. The FAO (United Nations Food & Agriculture Organization) estimates that with modern farming methods, the earth could grow enough food to feed 33 billion people. However, the UN estimates a plateau population of between 9 and 11 billion by the mid-to-late 21st century.

Each person in the world could have an acre of land in an area smaller than North America, at an average density of 250 people per square kilometer — packed as densely, in other words, Great Britain is today.

Africa, the world's poorest continent, has 20.2% of the world's land area, 13% of its population and 12% of its arable land. It has the greatest rate of population increase, and the greatest rates in increase in hunger, illiteracy, and desertification. Some nations in Africa, ravaged by disease and war, have actually lost population in recent years.

Arable land — defined as land capable of being cultivated in any given growing season — is a better measure of the food-production capacity than gross land area. However, many nations do not have nearly as much land under cultivation as they could, while others are losing arable land through erosion and overgrazing.

The chart on the right shows one of the most important and troubling trends in world demographics. Huge numbers of people in the world's poorest areas are moving into cities at increasing rates. The rapid growth of such cities as Cairo, Mexico City, Calcutta and Jakarta has placed great pressures on already-troubled nations.



Does the fact that so many desperate people are moving into cities show that the world's poorest nations are running out of land? Not at all. In most of thse nations huge tracts of farmland are used to grow crops for export. Often, the farmland that was once available to peasants has been bought up in multinational corporations, under the rubric of "global free trade". The people can make no living, but at least the ruling regimes can service their international debts, and stay in power.

	Population (millions)	Population growth (%)	Per Capita GDP	Life Exp. at birth M	Life Exp. at birth F	Literacy* M	Literacy* F	% Under 14 years	People per km²	People per hectare** of arable land	Oil consumption (bbl./person/year)
United States	295.7	0.92	40,100	75.0	81.0	97.0	97.0	20.6	32	1.7	24.7
Bangladesh	144.3	2.09	2,000	62.1	62.0	54.0	32.0	33.1	1,078	17.4	0.2
Brazil	186.1	1.06	8,100	67.7	75.8	86.1	86.6	26.1	22	3.1	4.3
China	1,306.3	0.58	5,600	70.1	74.1	95.1	86.5	21.4	136	8.8	1.4
Egypt	77.5	1.78	4,200	68.5	73.6	68.3	46.9	33.0	77	27.0	2.7
Ethiopia	73.1	2.36	800	47.7	50.0	50.3	35.1	43.9	65	6.1	0.1
India	1,080.3	1.40	3,100	63.6	65.2	70.2	48.3	31.2	363	6.7	0.7
Indonesia	242.0	1.45	3,500	67.1	72.1	92.5	83.4	29.1	132	11.7	1.8
Japan	127.4	0.05	29,400	77.8	84.6	99.0	99.0	14.3	340	27.9	15.1
Mexico	106.2	1.17	9,600	72.4	78.1	94.0	90.5	31.1	55	4.3	6.0
Nicaragua	5.5	1.92	2,300	68.3	75.2	67.2	67.8	37.2	45	2.9	1.7
Russia	143.4	-0.37	9,800	60.5	74.0	99.7	99.5	14.6	8	1.2	5.9
Singapore	4.4	1.56	27,800	79.0	84.4	96.6	88.6	16.0	6,489	4,055.8	57.7
South Korea	48.4	0.38	19,200	72.2	79.8	99.2	96.6	19.4	493	28.7	15.6
United Kingdom	60.4	0.28	29,600	75.9	81.0	99.0	99.0	17.7	250	10.6	10.2
The World	6,446.1	1.14	8,800	62.7	66.0	83.0	71.0	27.8	43	4.0	4.3

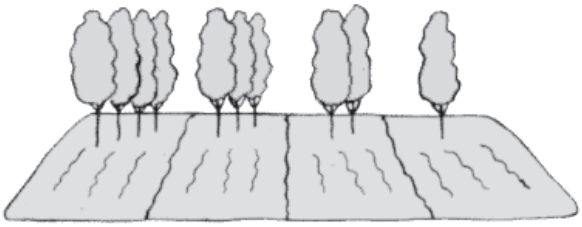
*usually defined as people over 15 who can read and write

**A hectare is about 2.5 acres.

Source: CIA World Factbook, 2005

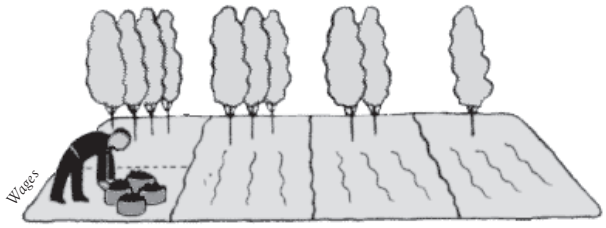
2. The Law of Rent

1. Different Grades of Land



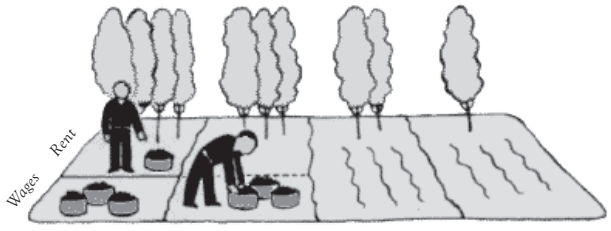
Here are four sections of a piece of land, with natural resources (fruit trees). Let us assume you can get one bushel of fruit from each tree. On the best section, you can get four bushels in one day. On the next section, with the same day's labor, you can get only three bushels.

2. First Comer — All Wages



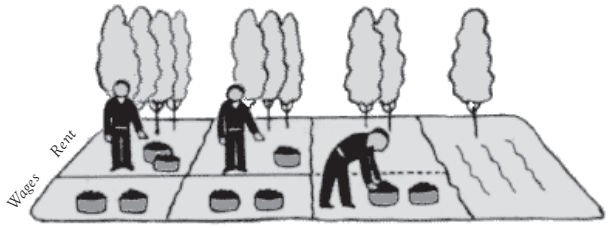
So far, all this land is free. The first person who comes to pick fruit will appropriate the best land available. This land becomes the margin of production (indicated by the dotted line). One day's labor gains four bushels: the worker's wages.

3. Second Comer — Rent Begins



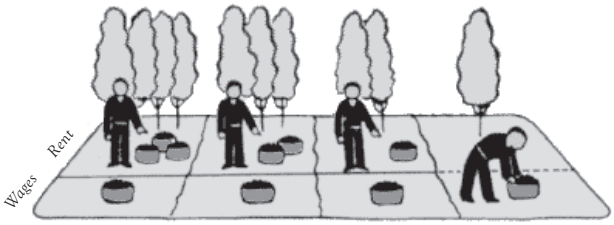
The next comer has to be content with the three-tree section. (This now becomes the margin of production.) Here, three bushels are the reward for one day's labor. These two people do the same work, yet one gets four bushels and the other only three. Why? Because of the difference in the land. Since the best land is superior by one bushel, its rent is one. Wages are three on both lands.

4. Third Comer — Further Rise of Rent



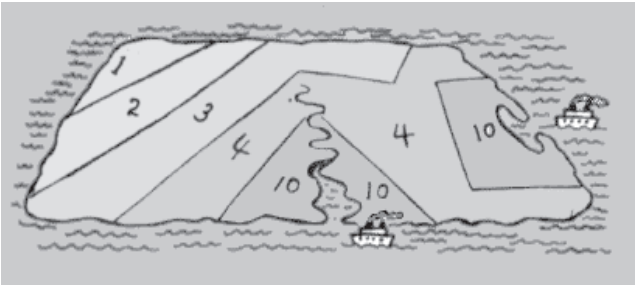
The third comer has to use the two-bushel land (which now becomes the margin). Wages on all lands are now two — for that is the most that can be had without the payment of rent. If the third comer wanted to work on the three-bushel land, its owner would take one bushel as rent. The rent represents what the landowners can get without working, but solely by virtue of their ownership.

5. Fourth Comer — All Land Used



When the fourth comer arrives, the only land left is the one-bushel land. Now, all the other lands have a rent in proportion to their superiority over this land, which is now the best land available without the payment of rent: the margin of production.

6. Other Natural Differences



So far our examples have been very simple, using only one variable. In the real world, that never happens! The operation of rent is influenced by the great variety of factors that make one piece of land superior to others. A good harbor or a navigable river, for example, makes the surrounding land valuable.

SUPPLEMENT — LESSON 4

Capital, Interest and Profits

Capital is wealth that is used in production, or wealth that is in the course of exchange. That seems clear enough at first, but of all the classical definitions, it is the most readily forgotten and misconstrued. It might be helpful to remember some of the things that capital is ***not***. Capital is not money, or stock certificates, or bonds, because those are things that do not directly satisfy desires. It is not land, because land is not produced by labor. It is not any form of service or skill, because capital is the material product of labor, not the labor itself.

It has often been held that the concerns of Labor and Capital are at odds in our "capitalistic" economy. But is it so? Is capital ***itself*** capable of yielding a huge or exploitative income? Let's suppose we've inherited some capital — the rolling stock of a trucking company, say, worth $100,000 — but no land to put it on. What can we do to get an income from it?

THE WEALTH PIE

We could sell it, deposit the proceeds in a bank, and get a safe (but small) income. Or we could keep the trucks. But, of course, unless our trucks are used in the actual production of wealth, they will yield no income. And out of that income, we must pay to rent some land to put them on. Whether we use the trucks or not, we must maintain them, or they will soon be worth nothing. We must pay wages to ourselves or to someone else to drive them and service them. Perhaps we don't know how to run a trucking company, so we can sell the trucks and buy some form of capital that we do know how to use. But it must also be maintained — and operated — and located somewhere. How can the ownership of capital, per se, yield an exorbitant income? It sounds more like a headache than a goldmine!

But perhaps we could sell our inherited capital and invest in land! That may be the better investment. Then we can collect payment from the owners of capital for the use of our land — while we use our labor in some other lucrative way, or perhaps just relax!

Capital cannot increase labor's production without the use of land. Like labor, capital must pay landowners for the value of the natural opportunities that it cannot do without. And like labor, the return that capital can get depends on the best available place where it can be used without paying rent.

That may be true — but do we not see "capitalists" getting rich in our "capitalistic" economy? We can clearly see wages going down while corporate profits go up!

But just exactly what are profits? And what is the relationship between profits and economic interest? First and foremost, we must recognize that while profit is an important consideration for individual investors and entrepreneurs, it has nothing to do with the Laws of Distribution at all. In this course we are concerned with the laws that determine how society's entire wealth output — the "wealth pie" — is distributed among the factors that produce it.

A big part of profit, for example, is the premium one might get on a risky investment. But if we are considering the whole society, we see that risk-taking winners and losers cancel each other out. "Risk premium" is a factor for individuals, but in the whole economy, the losses tend to balance out the gains.

Profits are the sum of three parts: economic interest (the return to capital), risk premium (and other wages, including "wages of superintendence"), and rent. A great deal of what George refers to as "spurious capital and profits commonly mistaken for interest" is actually income that comes from land. Today, corporate profits include large rents, and can be steady or rising even when the return on capital is falling.

THE DYNAMICS OF WEALTH DISTRIBUTION

Land is needed for all production — and its supply is fixed. Therefore, whenever production increases, demand for the fixed supply of land will increase — and the proportionate share of wealth taken by landowners will be greater.

With respect to each other, wages and interest tend toward an equilibrium in which neither factor sustains an advantage. This is because labor and capital need each other in production. Overall production (and hence, their own rewards) will suffer if shortages of either labor or capital go unmet. However, labor and capital can do nothing without access to land.

One reason why it is so vital to differentiate between profit and interest is that profits contain both rent and interest, and rent varies inversely with interest. That is because the return to capital, like the return to labor, depends on its best available alternative. Or in Henry George's terms, the return to capital (interest) depends on the margin of production, just as much as does the return to labor (wages). As the margin of production goes down, so do wages and interest — but rent rises.

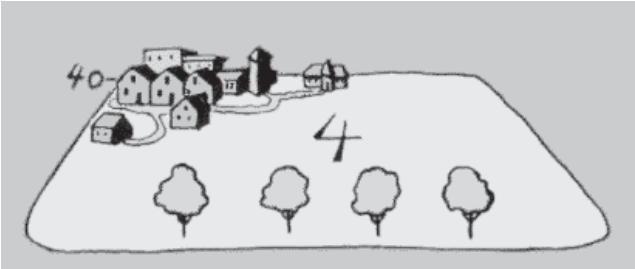
It is this confusion over terminology that leads to the persistent notion that the interests of Labor and Capital are opposed. Both, after all, need land on which to produce. Capital tremendously raises the output of labor (and without labor, capital can do nothing). Therefore, the returns to one cannot long increase at the expense of the other.

However, the interests of labor and capital and that of monopolists (particularly landowners) are indeed opposed. Labor and capital seek to engage in the production of wealth, and gain a return for it. But the landowner can command a payment from them, not because of any contribution to production, but merely for access to natural opportunities that enable them to prodice at all. Land speculators can increase their income by denying land access to labor and capital. That is the true opposition.

Note: *Because of confusion regarding the term "interest", many writers prefer to restrict the term to the sense of "bank interest", or the return on money that is loaned. For the return to capital, which George called "economic interest", they use another term such as "capital yield". Because there is no unanimity about this usage, however, in this course we continue to use the term "interest" (or "economic interest") as Henry George defined it.*

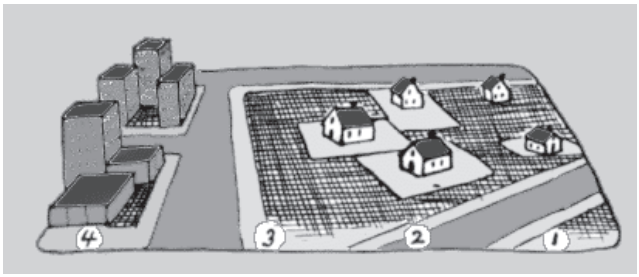
1. Effects of Progress and Speculation

Growth of Population



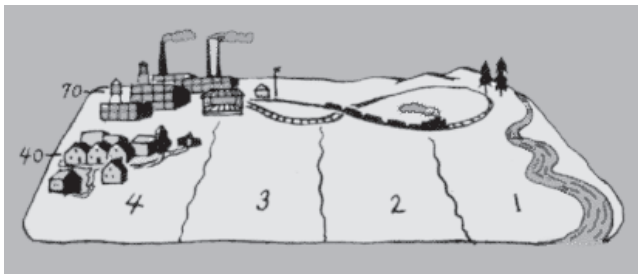
Assume that a good piece of agricultural land (as in our charts from Lesson III) yields four units of wealth. People settle in one section of it, and a town grows up there. The land within the town is no more fertile than any other — but productiveness of a new kind has arisen there. Because of the economies of cooperation and specialization of labor, it now yields forty instead of four. If the four land were free, what would be the rent in town?

Land Speculation



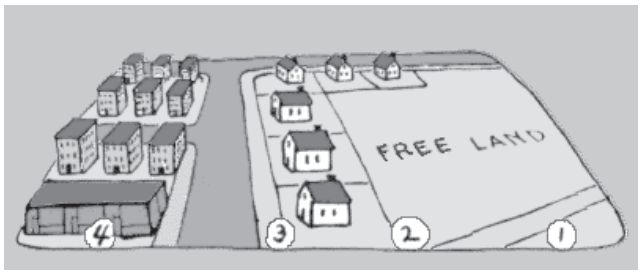
When landowners keep land out of use, waiting for a higher price, people who wish to use land must resort to poorer lands, because the price asked for better lands is more than they can pay. This creates an artificial scarcity of land, and forces wages down. It also creates an enormously inefficient use of energy and public infrastructure.

Effect of Industrial Growth



Industries grow, new labor-saving devices are invented, and much more can be produced. The productivity of industrial lands has now become seventy. Since more is produced, new materials are needed — and population continues to increase. This greater demand for land extends the margin of production to land that yields only one.

Land Speculation Abolished



If there were no land speculation, people would use land whenever it was needed. There would be no artificial obstacle. This would cause only the best lands to be used. There would be no overcrowding, and no unnatural sparseness of population. Rents would advance normally (according to the land's current, not future value) and wages would not be forced down. There would be far less wasting of energy and natural resources.

2. Some Effects of Land Speculation on Modern Economies

— New Construction is Limited. If builders must pay too much for building sites, it takes from their profit by raising their costs. Their profit on investing in the building itself is what stimulates investing, which in turn is what makes jobs and incomes.

— Business Costs Go Up. Businesses that rent their premises also get squeezed by rising rents. Here's an example: A merchant goes into a new shopping center with a long term lease. His rent is often higher than his business can profitably support, but he pays it to hold his position for the later term when he hopes the rent will be a bargain. Landlords writing long-term leases get used to this, and hold out for high rentals.

— Nonproductive Investments Become More Profitable than Productive Ones. Consider those who already own land that they might improve. They have the option of selling the land to a speculator. Why would they want to improve the land if the profits on their improvements would yield little more than merely collecting the speculation-hyped value of the vacant site? Landowners will "site-sit" and wait, if they believe future development will be much more gainful than development for the current market. When the workaday facts

of today begin looking dull and prosaic next to the gleaming expectations of tomorrow, look out.

— Banking and Credit is Destabilized. Builders need land, and borrow to buy it, even though the price is too high, gambling that future rises in rents will let them repay the loan. If these rent rises fail to happen, they go bankrupt. Their buildings are not destroyed, but the capital they used to build them was misdirected, so much of it is economically lost: the buildings lose their market value.

When speculation first starts to raise land prices beyond the sites' current use values, credit is extended farther in order to accommodate it. That is, banks lend on overpriced land, counting on a further rise. When the rise slows, they extend the loans, sometimes even granting new loans for paying interest on old loans. They use political pressure to get governmental agencies (e.g. the World Bank) to extend or underwrite these risky loans (e.g. in Latin America). When the bubble bursts, the loans are not repaid. This destroys capital. A great deal of capital was destroyed in this way in the great Savings & Loans debacle of the 1980s.

3. Land Rent and Selling Price

Rent — the return for the use of land — is the basic revenue from which land values are computed. Rent arises as lands above the margin come into use. (The value of items of wealth, on the other hand, derives from their cost of reproduction. But land has no cost of production, so its selling price must be derived from its potential to yield an income.)

Rental value exists on lands above the margin whether they are in use or not. This represents the amount that a piece of land would yield as rent when put into use. It is frequently computed on an annual basis and is thus called annual rental value.

Land value is a general term that is applied to lands that have a rental value. It may refer either to this rental value or, more commonly, to the price the land would bring if it were sold, which is known more sepcifically as ***Selling price***.

This building, on a busy corner of Lexington Avenue in Manhattan, sat boarded up for over a decade — why?

How is the selling price of land determined? Take the following example:

Mr. Smith owns the land on which some stores are built in a city. He pays $4000 a year taxes on this land. Some businessmen have leased the land from him, built the stores on it, and pay him $10,000 a year rent for the land. Mr. Smith makes a profit of $6000 on the deal. Ms. Jones wants to buy this land. Smith has put a price of $100,000 on it and Jones has agreed to pay it. Query: How did Smith arrive at the price of $100,000 and why was Jones willing to pay it?

The answer: When Jones offered to buy the land, Smith said to himself: "I'm making a clear profit of $6000 a year on this land. How much would I have to invest at say 6% to obtain an income of $6000 a year from the investment?" The answer is $100,000 because 6% of $100,000 is $6000. So Smith decided the land was worth $100,000. Jones went through the same reasoning and decided that the land was worth $100,000 to her. That is why she was willing to pay that much for the land.

It may be seen from the above illustration that the annual rental is the basic income that is to be considered. The selling price is derived from this rental by the process of "capitalization" described above; that is, by figuring how much would be needed to get the same income by investing at the current rate of interest (in this case 6%). This may be formulated as follows: The selling price of a parcel of land tends to be equal to the amount of money that would have to be invested to yield an income equal to the net income (rent) from land.

This may be expressed mathematically as follows: Selling price (P) multiplied by Interest rate (I) equals annual Rental (R): P x I = R. Thus Rental divided by Interest equals Price: R/I= P. (In this example, "interest" is used in its commercial sense of "rate of return" rather than its meaning in Political Economy, which is the return for the use of capital.)

In the example given, it may also be seen that the tax paid on the land has to be deducted from the total rental income before it can be capitalized into selling price. Total rent $10,000, minus tax. $4000, equals net rent, $6000. Thus Rent minus Tax (T) divided by Interest equals Price: (R - T)/I = P

We may then say: If the taxes on land are kept equal to the rental value of the land there can be no unearned income from the land and the selling price of the land will tend to go down to zero.

1. Theories of the Business Cycle

According to J.M. Keynes, whose theories have had enormous influence, the business cycle is caused by a divergence between planned savings and realized investment. If savings exceed investment, national income and employment fall. Something must be done to encourage investment and thereby consumption. Keynes proposed increased government spending and lowering of interest rates. If there are inflationary effects, they are supposed to be adjusted with increased taxes and higher interest rates.

The Keynesian theory deals with effects rather than causes. It supposes an "unwillingness to invest" but does not reveal why this unwillingness exists. As Henry George points out, land speculation lowers the returns to capital and labor. This is the basic, structural cause of slow investment in productive enterprises.

When people are hit by inflation, their incomes do not meet rising prices. They are certainly not helped in this problem by higher taxes and higher interest rates. Keynesian theories, after years of application, were revealed to be inadequate with the development of "stagflation" — a condition of inflation accompanied by stagnant economic conditions. (See Part 3 below.)

These inadequacies led to other theories, notably those of Milton Friedman and the monetarists, who say that changes in the money supply are the prime cause of contractions or expansions in the economy. This is called the "Quantity Theory of Money". They propose a monetary adjustment rather than an adjustment of interest rates or fiscal policy. The basic plan proposed by Friedman is a steady increase in the quantity of money of 4 or 5 percent a year as a cure for recessions.

This theory does not take sufficient account of the real distribution of wealth. Unless labor and capital can reap an adequate return, the increase in money supply will not help them, as the same proportion will go to unearned income as now — probably even an increasing proportion — with the same recessionary results. This has been borne out by unsatisfactory results in carrying out monetarist policies.

Inadequacies of the monetarist theory have in turn led to criticism by the supply-side economists (Arthur B. Laffer and others). They have recognized that the problems relate to the production of real wealth rather than monetary policies. They focus on tax policy and point out that heavy taxation of production discourages it and even reduces public revenue. Lighter taxation therefore would encourage production. Supply-siders, however, have little to say about the primary distribution of wealth. *Progress and Poverty* discusses the short-term benefits of a reduction in taxes, but shows that the long-term effect, unless more basic remedies are undertaken, would leave us pretty much as we are.

Henry George's explanation of land speculation as the basic cause of depressions deals directly with the problem of restricted production and maldistribution. He does not stop with a remedy that only encourages production but seeks one that provides for a just distribution as well.

2. How Does the Business Cycle Work Today?

Labor and capital must have land in order to produce. What do they do when land values advance? They cease production. What does this mean in real life? Labor and capital decline to buy or rent land at the high asking prices. Some will rent or buy less land, and

DEPRESSIONS AND LAND VALUES

The relation between depressions and land values was shown in a study made by Homer Hoyt on 100 years of land values in Chicago, from the city's beginnings in the 1830s to the depression of the 1930s. Here is a summary of the findings:

1836: Building of Chicago Canal caused a land boom. Population increased from 500 to 4000. Land values reached $10,500,000, making profitable use of land impossible. First major depression.

1856: Chicago became the railroad center of the West. Population exceeded 80,000. Land values increased to $126 million. At these prices, labor could not make a living. Then came the second major depression.

1860/65: Civil War. Wartime needs for wheat and meat stimulated production; land prices increased sharply.

1871/73: Chicago fire and post-war boom. Population 187,000. Land values increased to $575 million. Third major depression.

1876/92: Land values dropped to $250 million in 1876. Production and building resumed. New frenzy of land speculation. Land values in 1892 estimated to be $1 billion. Then came the fourth major depression.

1909: After many industrial failures and great unemployment, land values shrank to half what they were in 1890, though the population of Chicago was twice as great. Business improved and unemployment decreased.

1917/27: World War I and post-war boom. Much apartment construction. Land values in 1921 reached $2 billion.

1928: Land values reached $5 billion. Many records of increases of 1000% between 1915 and 1928. Labor could not pay this price and continue to live at its accustomed standard. Then came the fifth major depression.

1929/30s: Foreclosures erased more than $2 billion of land value; bank failures, unemployment, deep depression.

This sequence shows industrial progress followed by land speculation, followed by depression; then shrinkage of inflated land values and consequent resumption of progress, with the cycle repeating itself. This was not limited to Chicago; a similar picture could be drawn of any large, growing city.

use it more intensively. Some will sleep on the street, or sell from the sidewalk. Some will retreat to little patches of marginal land. Some will buy as much land as ever, but thus use up funds they otherwise would have used to improve it, becoming withholders themselves. Some will pass counterproductive rent-control laws. The economy-wide result will be less production, more unemployment.

Modern-day economists need to ask this question: *How do investors react to a set of incentives where expected changes in land value are made part of the overall return on investment — and land price part of the investment on which return is figured?*

This has several results:

— Many are screened out by the increased need for credit.

— Rising land value becomes part of the incentive to build, leading to a glut of luxury housing and a shortage of moderately-priced housing.

— Land value becomes collateral. Its wild swings destabilize credit and money.

— A lot of land is unused, (or run down in its present use), as the holder waits for a possible higher use.

3. Land Speculation and Inflation

As with depressions, there are many different theories of the basic cause of inflation. But since today's business cycle seems to involve a constant tension between periods of inflation and periods of unemployment/recession, the two phenomena clearly are linked.

George identifies land rent as an income for which no production is needed; it is, in effect, a tax on production, the burden of which increases as production increases, due to rising demand for the same supply of land. The tendency of this process is, as we have seen, to eventually raise land rents beyond the ability of labor and capital to pay them — and depression is the result.

Is there any way that this process can be forestalled? Yes: the money supply could be increased. Remember, what landowners gain, in a growing economy, the producers of wealth (laborers and capitalists) lose; how, then, can production continue to increase? The effect can be blunted an increased the money supply. Real wages might be in the process of declining, but people would be getting a greater number of dollars in their paychecks — and they will try to spend them while they can. Thus, an increase in the money supply can create a surge in demand, keeping a period of economic growth alive — at least until the next election. Eventually, increased rents will consume the value of the extra money. Then, one of three things must happen: either the money supply must be increased further, risking runaway inflation — or some way must be found to increase worker productivity — or there must be a recession.

After the Great Depression of the 30s, nations began to use Keynesian fine-tuning of government spending and interest rate levels to blunt the impact of the boom-bust cycle. Since then, "capitalist" economies have teeter-tottered between periods of inflation and unemployment. Employment surged until inflation started to heat up, then monetary brakes were applied, inflation slowed down, and unemployment started to rise. It seemed possible to carefully steer a nation's economy between the two extremes.

Then, beginning in the 1970s, the phenomenon of "stagflation" — a period of simultaneous high inflation and unemployment — began to rear its ugly head. The power of governments to contain these bad economic effects seemed to have diminished, and we were forced to accept higher residual levels of unemployment.

Today, economists define a "full employment" point which is the highest level of employment that can be achieved without an unacceptably high level of inflation (the point is usually reached at an unemployment level of four to six per cent). Why would this be so?

Economists recognize two main kinds of inflation. ***Demand-pull*** inflation occurs in a growing economy in which increased demand for goods and services leads producers to raise prices to cover the increased costs of meeting the quickly-growing demand. ***Cost-push*** inflation occurs when a "supply shock" — a rise in the cost of some vital material or resource — raises the cost of production, and hence the market prices, of goods whether demand is increasing of not. It's easy to see that a combination of the two could result in stagflation.

That is exactly what Henry George is describing, in his theory of booms and busts. In a growing economy, land rents increase faster than overall growth. This creates an incentive for more land speculation, further increasing land rents and prices. Higher rents cut tinto wages and power production: a "supply shock" which grows more severe as the economy increases its output!

George's reasoning, combined with a modern macroeconomic analysis of inflation, confirms that inflation and unemployment/recession are not in opposition — they are different sides of the same coin. Land speculation does two things to create inflationary pressures: 1) It increases the volatility of the economy, creating more severe swings and a sharper demand-pull climate when things are moving upward. 2) It creates a growing cost-push effect by creating a general increase in the cost of land, exacerbated by unproductive land-hoarding. Thus we are led to suspect that if we could rid our economy of land speculation, we could erase the tendency for economic growth to lead to high inflation. We are also led to suspect that unless land speculation is removed from the economy, full employment can only be achieved at the risk of high inflation.

I. Common Property in Land

Land, by its very nature, is common property — and our laws and traditions already go far toward recognizing it as such. The principle of eminent domain asserts the superior claim of society to land, as in the original Constitution of New York State: "The people of the State, in their right of sovereignty, possess the original and ultimate property in and to all lands within the jurisdiction of the State." English and American law generally recognize absolute ownership of goods, but not of land. The law deals with the land "owner" as a land holder; land is held under the sovereignty of the people and is subject to their conditions.

To achieve common property in land, Henry George proposed that the rent of land should be paid to the community. This payment expresses the exact amount that would satisfy the equal rights of all other members of the community. Individuals would retain title to land, fixity of tenure and undisturbed possession. This method of making land "common property" may also be called "conditional private property in land" (payment of rent to the community) as opposed to "absolute private property in land" (private collection of rent).

Leviticus XXV: "The land shall not be sold forever; for the land is Mine; for ye are strangers and sojourners with Me."

John Locke: "God hath given the world to men in common... Yet every man has a property in his own person. The labor of his body and the work of his hands are properly his." *(Civil Government)*

William Blackstone: "The earth, therefore, and all things therein, are the general property of all mankind... from the immediate gift of the Creator." *(Commentaries on the Laws of England)*

Thomas Jefferson: "The earth belongs in usufruct to the living... The earth is given as a common stock for men to labor and live on." *(Letters to James Madison)*

Abraham Lincoln: "The land, the earth God gave to man for his home, sustenance and support should never be the possession of any man, corporation, society or unfriendly government, any more than the air or water, if as much. An individual, or company, or enterprise requiring land should hold no more than is required for their home and sustenance." *(Lincoln and the Men of His Time* by Robert H. Browne)

II. Land Distribution

In the United States, approximately 3% of the population own or control 97% of the privately owned land. The largest landholding entities are oil and timber companies, holding many millions of acres. Nevertheless, the US has a large number of individual landholders; some two-thirds of all American families have title to some land. (Of course, many who have long-term mortgages actually own only a small portion of their land's value.)

In "underdeveloped" countries, especially in Africa and Latin America, land ownership is often extremely concentrated. In these societies the land problem is not masked and diffused as it is in wealthier nations. A small group controls nearly all the land in a nation, and the need for land reform is keenly felt.

This reform usually consists of breaking up large estates, with compensation to landlords, and making small holdings available to tenants on supposedly favorable terms.

Thus several small owners are substituted for a few large owners. The rights of all are not established. Besides the injustice of paying compensation to landowners, this measure does not take into account the changes in society, such as fluctuating populations, changes from generation to generation or the tendency of rural workers to move into urban areas. In many cases, the tendency to monopolization asserts itself and smaller holdings are taken over and absorbed into large estates.

If, on the other hand, a popular revolution — whose original goal may have been land reform — succeeds in installing a socialist regime, the result will be the seizing of nearly all the land and capital in the nation. The rights of wealth producers are not upheld when their capital goods are seized and held as government property. Henry George's brand of land reform, on the other hand, establishes equal land rights for all. It gives people the freedom to take as much or as little land as they can productively use — provided the obligation to society is paid. Thus, it enables the economy to progress under free conditions.

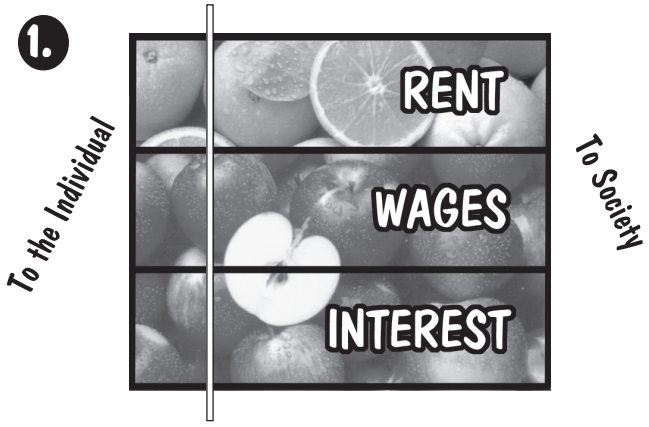
Common vs. Government Property?

Some hold that a distinction should be drawn between ***Common property*** — that which all have an equal right to use and enjoy — and ***Government property*** — that which belongs to the state and is subject to the direction of the government. If we believe, however, as Henry George did, that the purpose of government is to secure equal rights of all people, then there can be no meaningful distinction between common and government property. The government's role is to administer the common property of the people — who may decide, through the political process, to hold certain areas off the market for public use.

The only non-governmental common property is the unclaimed frontier. No individual, corporation or government can legitimately claim sovereign control over land except in its just role of securing the equal rights of all people.

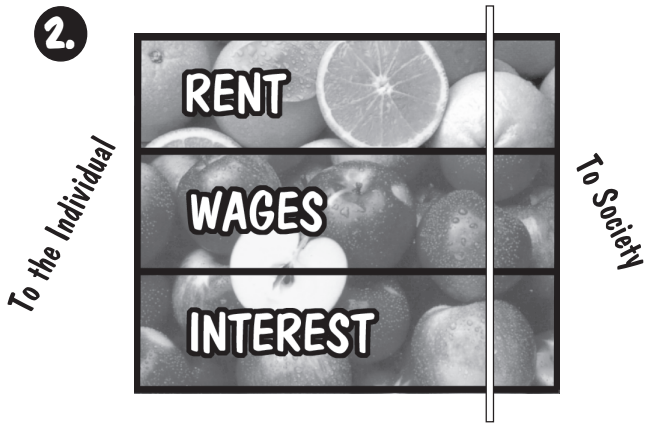
III. How Do We Divide the Fruits of Labor?

1.



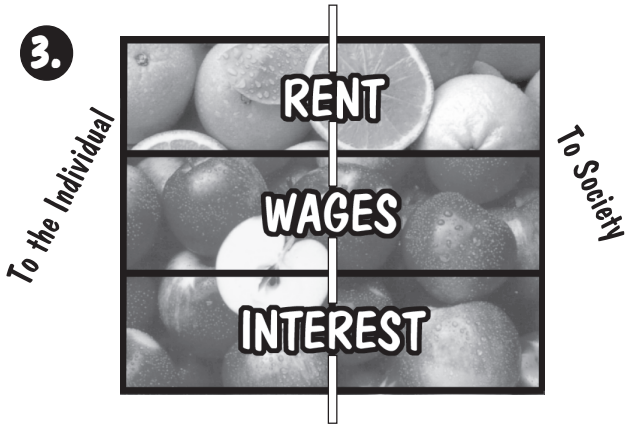
"Left-wing" proposals call for society to achieve **justice** by redistributing most of the wealth. No distinction is made between the sources of income (land, labor or capital), and individuals control only a small portion of the wealth. In most cases this entails a large measure of social control, and a "planned economy."

2.



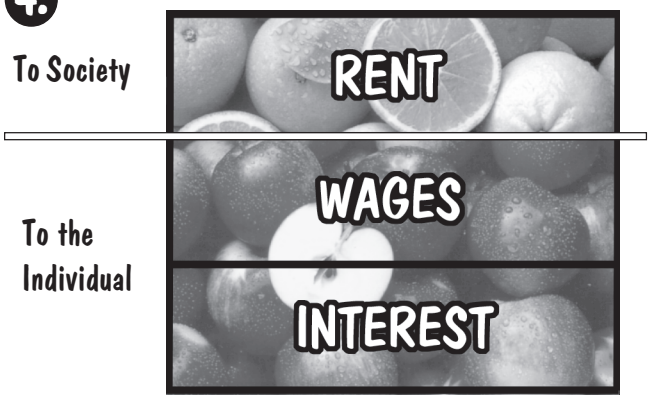
"Right-wing" proposals hold that **efficiency** requires more wealth to remain in private hands (also making no distinction between rent, wages and interest), and that society, or government, should only get the minimum it needs for necessary services, e.g., the role of "traffic cop." This implies leaving the running of the economy to private interests.

3.



"Middle-of-the-road" proposals seek a "balanced system" in the distribution of wealth and power between individuals and society — but make insufficient distinctions between earned and unearned incomes, and do not carefully define the proper spheres of society and the individual. The result is a hodgepodge in which **efficiency** and **justice** always appear to be at odds.

4.



The Georgist proposal is different from all these ideologies in that it makes a distinction between the unearned income of land (rent) and the earned incomes of labor and capital (wages and interest). Rent to society, wages and interest to the individuals who earned them.

In the Georgist proposal, the proper spheres of society and the individual are clarified. The Georgist proposal achieves the goal of "left-wingers" for security and social action, but without restrictions on liberty. It achieves the goal of "right-wingers" to attain freedom, but without privilege and monopoly. And it achieves a balanced system sought by "middle-of-the-roaders," but in a just rather than arbitrary way.

I. How Public Rent Collection Can Be Applied

Henry George proposes the public collection of the rent of land, and the abolition of all other taxation. (This has been called the "Single Tax.") We already take some rent in taxation and we only have to make some changes in our modes of taxation to take it all.

Example: Assume a present real estate tax of 3%, i.e., 3% on land and 3% on buildings. The change could be effected by gradually increasing the tax rate on land and gradually decreasing it on buildings. The first year, the land value tax could be stepped up to 3 1/4% and the building tax down to 2-3/4; and so on each year until, after a 12-year period, the tax rate would be zero on buildings and 6% on land. The rate on land can be increased until the full rental value of land is collected. Other taxes should of course be abolished progressively until a Single Tax is achieved.

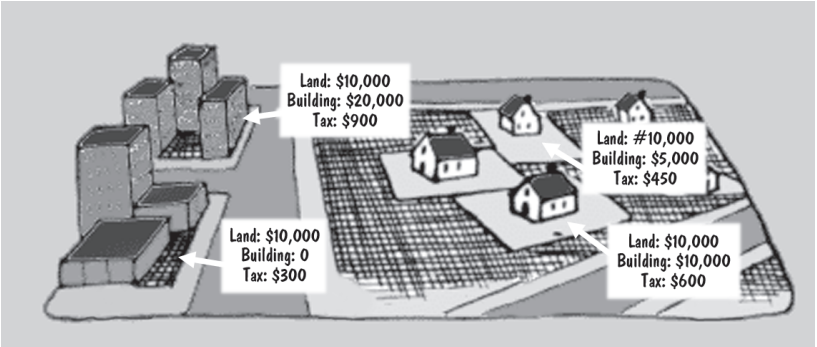
The chart at right shows the amount of property tax that would be paid for different properties under each system.

II. The Tax Base

As explained in the Supplement to Lesson V, "Rent and Selling Price": rent is the actual income from land when used; annual rental value is the amount that can be obtained for land in one year, whether or not it is currently used; land value may mean either rental value or selling price, depending on the context in which it is used; selling price is the amount land sells for, based on the capitalization of the rental value.

In the example used above, the value taxed is actually the selling price. If the full rent were collected, however, the selling price would tend to go down to zero. Therefore, a "land value tax" applied to the selling price of land would diminish in quantity as it progressively took more of the rent. The problem could be solved by directly assessing the annual rental value of the land and collecting that amount. However, assessments are not generally done in this way, and the changeover to a new method of assessment, while technically a simple process, could prove costly and slow to implement. One possibility is to start by increasing the tax on selling price, and then when the process is far advanced, switch to a direct tax on rent.

Here is a familiar example. Each of the sites shown has a value of $10,000 — but they are used very differently. The conventional property tax system levies a tax of 3% of the total value of the real estate — land and buildings — on each.



Suppose, instead, a levy of 6% on the land value alone — with no taxes on improvements. What would the property tax bill be for each of these parcels? Each parcel has the same land value — so the tax would be the same: $600, regardless of the use to this the land is put. So we see that — compared with the current system — a tax on land value penalizes land speculation and rewards development!

III. Related Questions

Should 100% of the rent be collected? Henry George suggested (in *Progress and Poverty*, pp. 405 and 407) leaving a percentage of rent to landowners, enough to induce them to continue holding their land. They would, then, collect the rent from tenants and turn over all but their percentage to the public treasury. Between 5% and 10% would be a reasonable commission for their services; thus there would be a 90%-95% tax on rent. This method, said George, would save the government the function of letting out lands.

Would Rent be a sufficient source of public revenue? The total rent of land in the United States has never been calculated. (Irregular assessment practices do not give the true value of land. Rent is also disguised in numerous ways: for instance, it figures largely in returns to stocks and bonds. Also, because real estate is so often used as collateral for loans, a tremendous amount of rent is paid to banks as interest on mortgages.)

Some say that rent would be insufficient for total budgets, federal, state and local. But it is to be

expected that the Single Tax would on the one hand produce great economies in government, and on the other hand result in greatly increased production of wealth, with an increase in all returns — rent, wages and interest. And so (if it does fall short at present) within a short time rent should meet all legitimate needs of government. Of course, there is not universal agreement on how much government should cost! Some say rent might far exceed the needs of government. If so, the surplus could be used to wipe out the public debt and the balance be distributed as a dividend to all citizens.

How would the rent be apportioned? With only one tax, how would it be divided as between local, state and federal governments? One proposal is to collect all rent at the local level: the local governments would pass a percentage to the state governments, which in turn would pass a percentage on to the federal government. This is the method usually used between state and local governments when property taxes are levied by the state. It was also used by the federal government when it levied property taxes between 1789 and 1861, apportioned among the states according to population, as specified by the U.S. Constitution.

Another proposal is for each level of government to impose the tax directly on respective types of land — municipalities on land within their areas; states on land within their areas outside the municipalities, such as farm land; and the federal government on such natural resources as oil fields, mines, forests and waterways. In practice, this method is also partially observed. Using this method, funds for international needs, such as peacekeeping functions or pollution control, could also be collected on lands that are outside of national jurisdictions.

Can a tax on land values be shifted? That is, can a land owner who is taxed on land increase the rent charged to tenants so as to pay the tax and still get the same net rent as before? Suppose land is not taxed and a tenant is paying $1000 annual rent for the land. Suppose a tax of 20% is now imposed on the rent, i.e. $200. Can the landowner now demand $1200 in rent, keep $1000 as before and pay $200 in tax? This is what is done with commodities — an increased tax increases the price.

However, the case is different with land. Land is not produced by labor; it is fixed in quantity and its price is a monopoly price (all the traffic will bear). A tax on labor products increases the cost of those products and this is reflected in the price. If the new price meets consumer resistance, the supply of that product is checked.

But a tax on land does not affect either its cost of production (it is not produced) or its supply (which is fixed). Thus its price is not increased (the owner is already getting all the traffic will bear), and the tax falls directly on the owner. The rent of land is determined by the margin of production and it is a certain amount whether taxed or untaxed. A tax on land value is simply a division of the rent between the owner and the community. Thus the landowner in the case cited above would pay $200 in tax and keep $800 in net rent, as the total rent is still $1000.

IV. Broad-Based Taxation vs. the Single Tax

The favored public revenue strategy today is to make taxation as "broad-based" as possible — that is, to spread it out over as many different sources as are available. The reasons for this are political as well as theoretical. The more different tax sources there are, the more they can be played against each other to favor special interests. Local taxes can be played against federal subsidies, property taxes against sales taxes, taxes on consumption against taxes on production; an endless variety of deductions, abatements, tariffs or subsidies can be applied to reward particular constituents.

The theoretical reason is that taxation is considered to be a burden on all economic activity. When such things as wages, sales, interest, etc. are taxed, it makes goods and services cost more, thus lowering demand — and demand is what stimulates production.

So if all taxes are a burden on production, then they should be spread over as wide an area as possible to minimize the load on individual producers.

But there is one thing in the economy that can be taxed very heavily — to the full extent of its value, in fact — without decreasing the demand for goods and services. A tax on the rental value of land cannot diminish production, because land is not produced. A land value tax cannot increase the price of goods because those prices include the cost of land in any case, whether the rent is paid to a landowner or to the community.

The "broad-based" tax idea, failing to recognize the distinctive character of land as a factor of production, seeks to spread out the tax burden. In so doing, broad-based taxes — whether by accident or by design — provide all manner of opportunities for special interests to influence tax policies in their favor, at the expense of fairness and accountability. Land value taxation, on the other hand, is merely the collection by the community of the very fund that the community has created — a fund that is easy to assess and impossible to hide.

I. The Empirical Record

Nowhere yet has the principle of the public collection of land rent, with abolition of all other taxes, been applied on a large scale. But partial applications indicate results commensurate with the degree of application. The history of all such efforts is presented in Land Value Taxation Around the World *(Third edition, 2000, Blackwell, 490 pp.) The following remarks are excerpted from the introduction to that volume by its editor, Robert V. Andelson.*

In 1955, when the first edition of this book came out, land-value taxation seemed to be advancing steadily if not dramatically; it was spreading at the local level in Australia and New Zealand, and its extension in Denmark was backed by all three parties that made up the coalition government. By 1997, the year of the second edition, serious reversals had occurred in New Zealand and Denmark, the nations where it had seemed most firmly entrenched, and there is now a definite possibility that what little remains of it in Denmark is about to be discarded. Although nowhere actually rescinded in Australia, it had been minimized there by growing reliance on users' charges....

Meanwhile, public capture of economic rent had become a major feature of several countries on the Pacific Rim*, and is being adopted ever more widely on the municipal level in the state of Pennsylvania. Now that Scotland has its own parliament, land reform is high on its agenda, and efforts are being made to point that reform in the direction of land-value taxation. The idea has also gained strong support among several of Russia's most prominent political leaders, and has been endorsed without dissent by the Union of Russian Cities at a conference representing eighty of that nation's largest metropolitan jurisdictions.

True, the system has in some few cases been abolished, but never because it was a failure. In Denmark, the explicitly Georgist Justice Party was voted out of Parliament and the advance of land-value taxation halted, but this happened at a time of unprecedented prosperity and for political reasons that had nothing to do with land-value taxation as such. In New Zealand, it was done away with in the three largest cities in which it was in place, but this came in the wake of major jurisdictional reconfiguration, and was never submitted to the voters for approval. In various smaller municipalities, where the public had an opportunity to vote on whether to reject or retain it, the overwhelming decision was to retain.

Hence, to those who share George's vision, retrogression is not unalloyed by gains. Yet it must be stressed that these gains are slender, tentative, and by no means secure. In point of fact, many of the "success stories" hailed... in Georgist literature have been quite exaggerated. The implementation of land-value taxation has really been extremely modest, and its impact, where genuine, all too often blunted by countervailing policies, usually at other levels of government.... sober realism [is better] than naive complacency.

*Particularly Taiwan, Hong Kong and Singapore, all of whom have developed booming industrial economies and avoided urban blight.

II. Henry George's Remedy: Partial vs. Full Application

Modern reformers have taken George's advice to use existing systems of property taxation to implement the remedy. Indeed, the separate assessment of land and buildings was established in many jurisdictions as a result of single-tax activism. "Two-rate" property tax reformers seek to raise the tax rate on land while lowering the tax rate on buildings, thus gaining more local revenue from land values, and less from improvements. Wherever this has been done, it has been followed by a surge in new construction and a revitalization of the local economy — to a greater or lesser degree, depending on the degree of the shift. The two-rate proposal is offered as a revenue-neutral shift; that is, it does not propose an increase in property tax revenue, but rather a shift to greater reliance on land values for the same revenue.

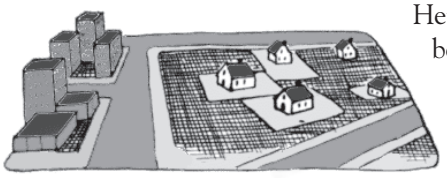
In *Progress and Poverty* George described how the public collection of land rent would decrease, and eventually remove, the selling price of land. In lesson 5 we discussed how the selling price of land is derived from the land's potential to yield rent, by the process called capitalization, as shown in the formula (R - T) / I = P, where R is the annual rent of land, T is the tax on the land's value, I is the current rate of interest and P is the selling price. We can see from this formula how P (price) diminishes when T (land value tax) increases — all else being equal.

Experience has shown, however, that when cities adopt a revenue-neutral shift to higher taxes on land values, their land prices tend to go up! Does this mean the formula is wrong? Not at all; it simply means that all else is not equal. The land value tax places a greater penalty on holding land idle; this

stimulates more construction in the city. As people and economic activity are thus attracted to the city, locations within it become more valuable. If, in other words, rent increases more quickly than it is taxed away, then land prices go up. This does no violence to the theory — and, it gives the city an opportunity to further enhance prosperity by raising its land value tax rate (and lowering its rate on buildings — ideally, of course, buildings should not be taxed at all). In Pittsburgh, this was done many times after the initial shift to the graded tax in 1914. However, once the community's actions have increased its land values, its private landowners want to reap the reward. Therefore, a vigilant political and educational effect is called for, to demonstrate the connection between the two-rate tax policy and local prosperity.

Land value tax will not decrease land prices unless it recovers a greater portion of the land rent than is created by the incentive effects of the tax. By stimulating a local construction boom, LVT can raise local wages temporarily. But for land value taxation to fulfill its promise of raising the general level of wages and interest, it must be applied to a sufficient degree to raise the margin of production, thus creating a viable alternative option for labor and capital.

III. A Closer Look at the Law of Rent



Here is a model with five different grades of land. Workers are more productive on better land — they can each produce more units of wealth (because the best workers tend to win the competition for areas that offer the best opportunities). And, on the better grades of land, more workers can be employed on each "plot" of land. But the cost of public services (infrastructure) is greater in proportion to the amount of production and the (potential) number of workers.

Let's say that in this model there are four plots of each grade of land, and that one of each four has been held out of use. "Net Rent" on each grade of land is the difference between the marginal output per worker (1 unit in the first chart), and the per-capita production in each area, times the number of workers.

4 plots of each grade of land	5 units per worker/day; 50 workers per plot	4 units per worker/day; 40 workers per plot	3 units per worker/day; 30 workers per plot	2 units per worker/day; 20 workers per plot	1 unit per worker/day; 10 workers per plot	
plot 1	50 x 5	40 x 4	30 x 3	20 x 2	10 x 1	
plot 2	50 x 5	40 x 4	30 x 3	20 x 2	10 x 1	
plot 3	50 x 5	40 x 4	30 x 3	20 x 2	10 x 1	
plot 4	0	0	0	0	0	TOTALS
# of workers	150	120	90	60	30	450
wealth output	750	480	270	120	30	1650
infrastructure cost	200	160	120	80	40	600
net rent	600	360	180	60	0	1200

4 plots of each grade of land	5 units per worker/day; 50 workers per plot	4 units per worker/day; 40 workers per plot	3 units per worker/day; 30 workers per plot	2 units per worker/day; 20 workers per plot	1 unit per worker/day; 10 workers per plot	
plot 1	50 x 5	40 x 4	30 x 3	free	free	
plot 2	50 x 5	40 x 4	30 x 3	free	free	
plot 3	50 x 5	40 x 4	30 x 3	free	free	
plot 4	50 x 5	40 x 4	free	free	free	TOTALS
# of workers	200	160	90	-	-	450
wealth output	1000	640	270	-	-	1910
infrastructure cost	200	160	120	-	-	480
net rent	400	160	0	-	-	560

Now let's see what happens if we employ the same number of workers, under the same conditions, but with land speculation eliminated!

1. Review of the Main Points of the Course

The purpose of the course is to apply economic fundamentals to current problems, particularly the problem of "progress and poverty": Why, with our great increases of productive power, is it still so difficult to make a living?

Upon examination, we find that the explanation is not that we have insufficient capital or low productive capacity; nor that there are too many people in relation to the world's resources. Poverty cannot be explained by an incapacity to produce sufficient wealth. We therefore turn to the laws of distribution for an answer.

In studying these laws we find that wages and interest rise and fall together with the margin of production; and that rent rises and falls inversely as the margin falls and rises. Interest — the return to capital, which is a form of human exertion — tends to be equally attractive with wages, just as wages tend to be equally attractive with all other wages.

As civilization advances and land becomes more valuable, rent increases and is privately appropriated. This lowers the proportionate return of wealth going to labor and capital as wages and interest. The anticipated increase of rent leads to land speculation which holds land out of use and further increases rent at the expense of wages and interest. Land speculation pushes the price of land to the point where it is no longer profitable for labor and capital to continue producing, and a stoppage of production occurs. Though there are other proximate causes, this is the basic cause of depressions and of the maldistribution of wealth.

To remedy this situation and to raise real wages we must eliminate land monopoly and land speculation. The most effective way to do this is by community collection of rent (land value taxation) and abolition of all other taxes.

This proposal is further justified by the fact that land values are produced by the growth and activities of the community as a whole, not by the efforts of landowners. The rent of land properly belongs to the community to defray communal expenses. Abolition of taxes on labor and the products of labor would enable producers to keep the full fruits of their toil. Adoption of this proposal (called the "single tax") would greatly encourage production; wages and interest would rise; land, freed of the burdens of monopoly and speculation, would be easier to acquire for productive purposes and for homes; "booms and busts" would be replaced by continuous growth; governments would be greatly simplified.

Illustration from the set of original illustrations for Progress and Poverty *by Robert Clancy, founder of the Henry George Institute.*

With equal economic opportunities open to all, with people associating in equality, society would be elevated to new heights economically, intellectually and morally.

2. Answers to Typical Questions

Q. Under the Single Tax, how would land values be estimated? How could you separate the value of the land from the value of the improvements?

A. In much the same way as it is done today by real estate dealers and appraisers. The value of land is habitually estimated simply by knowing its size and location. When a building is destroyed, land value remains. Frequently, the owner of the land and the owner of the building are two different parties.

Q. If a person owns a city lot with a building on it, what would prevent another from bidding a higher tax than the first could pay, thus ousting him or her from the building?

A. The Single Tax is not a method of nationalizing land and renting it to the highest bidder. It is a method of taxation. It would not only hinder, it would prevent the unjust ousting of another from his building. The tax falls upon landowners in proportion to the value of their land. This value is determined by the real estate market — by the demands of the whole community — and not by occasional and arbitrary bids.

Q. A rich man has a large mansion; a poor man has a small house on an adjoining lot with the same value. Is it right that they both pay the same tax?

A. There is no reason in justice why the community should not charge the poor as much for monopolizing valuable land as it charges the rich. In either case it is a special privilege which should be paid for. In our sympathy for the poor man in this situation, let us not forget the millions who not only do not live next to mansions but have no place to live — save by some landlord's consent. They would find it much easier to get a place to live under the Single Tax than now.

Q. Though some people have made money by owning land, haven't others lost? Do not the losses offset the gains?

A. Possibly; but what the land speculator loses, the community does not gain. What the land speculator gains, however, the community does lose. As between land speculation and the community, losses cannot be justly charged against gains. The taxation of land values, incidentally, will put an end to these "unearned losses" as well as to unearned gains.

Q. Why single out landowners for taxation? Are there not other unearned incomes (such as a work of art which increases in value)?

A. All incomes come from only two sources — land or labor. Land is not a thing of human production. People cannot live without access to land. In these two respects it is unique. No other "unearned income" compares with rent in importance. All other increases in value may be traced to a labor product as its source. A work of art may be unique, but unless it is stolen, its transfer from hand to hand is morally justifiable. Its ownership does not deprive any one of the means of life, or even of the means of creating a new work of art.

Q. If someone buys land in good faith, under the laws by which we live, would that person not be entitled to compensation for individual loss if we taxed away the value of his land?

A. Even at present, if a landowner does not pay taxes, his or her land is confiscated by the government without compensation. Land grants and taxation are clearly matters of the general public policy; they are legislative and not contractual in character. Titles to land values and privileges of exemption from taxation are voidable at the pleasure of the people. The reserved right of the people to terminate grants of land value is as truly a part of every grant of land as if it were written expressly in the body of the instrument. Since *Progress and Poverty* was written, there has been a considerable body of public opinion in favor of land value taxation, and the proposal has been put into application in several parts of the world. Notice, therefore, has been served that there is an effort in progress to accomplish community collection of rent by proper methods. As this movement grows, people cannot be allowed to make bets that it will fail and then, when they lose their bets, to call upon the government to compensate them for their loss. Note too that land titles will remain. The land will be just as good as before — even better — for building or producing.

"Seeing the Cat" has long been a slang term for achieving an understanding of Henry George's ideas. Louis F. Post, in his book The Prophet of San Francisco, *refers to a speech made by Judge James G. Maguire to New York's Anti-Poverty Society in the 1880s: "I was one day walking along Kearney Street in San Francisco when I noticed a crowd in front of a shop window… I took a glance myself, but I saw only a poor picture of an uninteresting landscape. As I was turning away my eye caught these words underneath the picture: 'Do you see the cat?' …I spoke to the crowd. "Gentlemen, I do not see a cat in the picture; is there a cat there?" Someone in the crowd replied, "Naw, there ain't no cat there. Here's a crank who says he sees a cat in it, but none of the rest of us can." Then the crank spoke up. "I tell you," he said, "there is a cat there. The picture is all cat. What you fellows take for a landscape is nothing more than a cat's outlines. And you needn't call a man a crank either because he can see more with his eyes than you can with yours." The cat — like the role of land in the economy — is utterly unmistakeable, once it comes clear. Do you see the cat?*