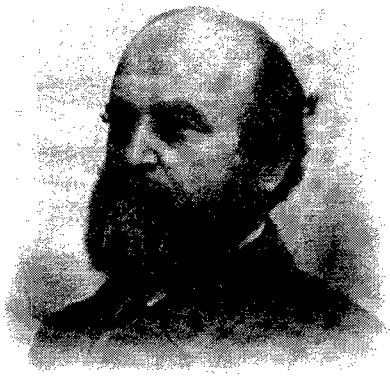
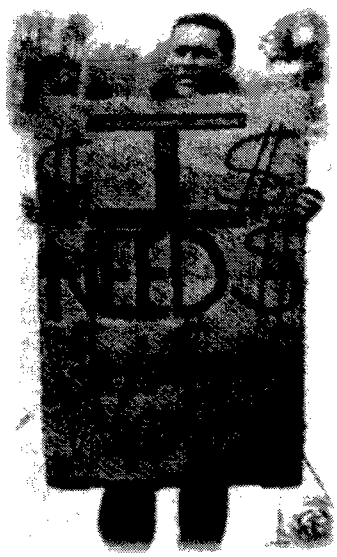
Henry George Institute
Robert Schalkenbach Foundation



Understanding Economics







Instructor's
Guide

A Note to Students and Teachers

You are about to embark on a refreshingly unusual educational experience: a course in the fundamental principles of economics that is designed to be understandable to any literate person — yet contains insights that would benefit many highly trained professional economists.

Understanding Economics has a long history. Courses in fundamental economics based on George's *Progress and Poverty* have been offered since 1932 at the Henry George Schools of Social Science. Hundreds of thousands of students from all walks of life have taken versions of this course and found them invaluable. Its newest incarnation is the online correspondence course, offered on the world-wide-web by the Henry George Institute (http://www.henrygeorge.org). This study guide is a printed version.

The structure of the course calls for some explanation. Its objective is to provide an introduction to the principles of political economy as elaborated by Henry George in his classic *Progress and Poverty*. Along with the supplemental essays contained in this booklet, the course not only covers George's fundamental principles but applies them to current problems and issues in contemporary economics.

You will notice that the 100 questions of the course do not follow a straight path through the textbook; they skip around a bit. This is because the course is structured to develop its thesis in a way that anticipates the questions that today's students are likely to ask. (Those who wish a more thorough examination of George's book should consider the Henry George Institute's course in *Fundamental Economics*, which covers the entire unabridged edition of *Progress and Poverty*.)

The best way to experience this course is to read the whole book first — the abridged edition is a delightfully quick-paced read, in which the development of George's thesis unfolds like a detective story. Then, as you work through the study questions, refer to the supplements and re-read passages from the text as needed.

We hope you will find this course accessible and enjoyable, and that it achieves its goal of changing the way you think and feel about the vital, challenging study of how we make a living.

— Lindy Davies, Henry George Institute

Acknowledgements

This course is a profound collaboration, incorporating decades of work by dozens of Georgist educators. However, we wish to thank a few for their extraordinary contributions to the present effort. Much of the commentary in our supplements is adapted from the university course on *Progress and Poverty* written by Prof. Mason Gaffney of the University of California at Riverside. Another important pedagogical contribution came from Mike Curtis, Director of the Henry George School in Philadelphia. All the original drawings used in this work were done by the late Robert Clancy, who also played a key role in the design of the classic series of political economy courses used by the Henry George Schools. The Robert Schalkenbach Foundation provided funding for equipment and labor. Mark A. Sullivan offered key editorial and design consultation. And indispensable help and support were provided by Institute staff members Neva Bianco and Sonny Rivera. Thanks to all!

This workbook is a companion volume to *Progress and Poverty*, abridged edition, by Henry George, published in 1997 by the Robert Schalkenbach Foundation. It is an adaptation of the online course offered by the Henry George Institute at http://www.henrygeorge.org.

ISBN 0-911312-42-0

Henry George Institute
121 East 30th Street, New York, NY 10016
(212) 689-0075 teacher@henrygeorge.org

Robert Schalkenbach Foundation
149 Madison Avenue, #601, New York, NY 10016-6713
(212) 683-6424 Schalkenba@aol.com

Understanding Economics: 100 Questions

Part I: The Basics. Economic Definitions

1. What was "the great enigma" of Henry George's day? Is this still a problem — and a mystery — today? *[Chp. 1]*

> Why do poverty, want and despair deepen as material progress advances? This problem remains, despite all manner of political adjustment and technological advance.

2. What concept is missing from the "problem of scarcity" as it is construed by mainstream economics? *[Sup. I]*

> It pays inadequate attention to the distribution of wealth.

3. What are the four criteria that a thing must satisfy in order to be defined as Wealth, according to Henry George? *[Chp. 2; Sup. I]*

> Wealth is: 1) Any material object, which is 2) the product of human labor, that 3) satisfies human desires and 4) has exchange value. To be classed as wealth, an item must meet all four criteria. (A labor product that satisfies all the criteria except that of being a material thing is called a service.)

4. Describe some of the confusions and ambiguities that surround the use of the term "wealth" by economists. *[Sups. I; III]*

> Definitions of wealth vary, often within the same textbook. In general, anything with economic value is considered to be wealth. In some cases a distinction is made between items to be consumed as opposed to items capable of yielding an income, the latter being classed as "wealth." Because mainstream economics tends not to be concerned with wealth distribution as a specific area of study, a clear definition of wealth is not a priority.

5. What is production? What is its goal? When is the process completed? *[Chp. 4; Sup. I]*

> Production is the changing, in form or in place, of natural materials by human labor so as to satisfy human desires. Since the goal of production is to satisfy desires, the process is completed when the wealth reaches the final consumer. Intermediate steps such as international trade, wholesaling, packaging, etc. are all part the process of production.

6. What fundamental principle of human exertion underlies all the laws of economics? *[Chp. 1]*

> People seek to satisfy their desires with the least exertion.

7. What is land, in political economy? Name the payment that land receives. *[Chp. 2; Sup. I]*

> Land is the entire material universe, exclusive of human beings and their products. The payment it receives is called economic rent.

8. What is labor, in political economy? Name the payment that labor receives. *[Chp. 2; Sup. I]*

> Labor is all human exertion, mental or physical, in the production of wealth and services. Its payment is called wages.

9. What is capital, in political economy? Name the payment that capital receives. *[Chp. 2; Sup. I]*

Capital is wealth that is used to produce more wealth, or wealth that is in the course of exchange. Capital is a subset of the overall category of wealth. Its payment is called economic interest.

10. Why is money not included in the category of wealth? *[Chp. 2; Sup. I]*

Because money does not satisfy human desires; it is merely the medium of exchange and measure of value. If money is destroyed, there is still exactly the same amount of wealth in the society. (What was lost was the purchasing power of the individual holder of money.)

11. Discuss ways in which the common meaning of each factor (land, labor and capital) is different from its economic sense. *[Sup. I]*

a) Land - is often considered as just the earth's surface, not all natural opportunity. Also, the economic importance of urban land is often not remembered.

b) Labor - is often thought of as only those who work for a paycheck, when in reality the mental contributions of management and entrepreneurial risk-taking are properly considered as labor.

c) Capital - is confounded in many ways. Some stem from inconsistencies in the definition of wealth. Land is often considered to be part of capital. "Human Capital" is often mentioned, further aggravating the confusion.

Part II: The Problem of Poverty. Was Malthus Right?

12. What is the problem of poverty, as defined by Henry George? Does poverty still accompany progress? *[Chp. 3]*

"Why, in spite of the increase in productive power, do wages tend to a minimum which will give but a bare living?"

13. What is the Malthusian theory, often advanced to explain the persistence of poverty?*[Chp. 6]*

That population tends to increase faster than subsistence. According to this theory, a point is inevitably reached at which the earth cannot support the population.

14. Does increase of population increase or decrease the power to produce wealth? *[Chp. 6]*

Increases - due to economies of scale and the possibilities of cooperation and exchange.

15. Evaluate the following statements: *[App. I]*

a) Overpopulation causes poverty.

a) Overpopulation causes poverty. - There has never been any consistent correlation between poverty and density of population. Historically the most densely populated areas have been the wealthiest. Africa, the poorest continent today, is also the most sparsely populated.

b) Poverty causes overpopulation.

b) Poverty causes overpopulation. - People who are poor tend to have children for economic reasons: to help with subsistence farming work, to provide for aging or ill parents, or because of high infant mortality. There is a well-documented "demographic shift" that shows a consistent correlation between rising living standards and lower birth rates.

16. In political economy, what is the distribution of wealth? *[Sup. I]*

It is the division, or assignment of ownership, of wealth among the factors that produce it.

17. What is "functional distribution"? What is the purpose of our three-factor conception of production and distribution? *[Sup. I]*

As we have defined them, the three factors of production are mutually exclusive. They are clearly distinguishable, and the sum of their returns, rent + wages + interest, equals the total wealth produced. They are separated according to their functions. This allows us to make definite statements about wealth distribution in the entire society.

18. What factors are always absolutely necessary for all production? *[Chp. 7]*

Land and labor. All wealth, including wealth that is used as capital, comes from labor applied to land.

19. What does Henry George mean by the "general law of wages"? Why is that a focal point in our study? *[Chp. 9]*

All wages depend upon the marginal level of wages: the most that labor can obtain at the highest point of natural productiveness open to it without the payment of rent (the margin of production). This is the level upon which all higher wages depend. If some members of society have extremely high incomes, a relatively high mean, or average, wage can obscure the true level of poverty for most workers.

Part III: Wealth Distribution: There is Such a Thing as Natural Law!

20. Is labor paid according to its productivity, or according to its alternative? Is this true at all wage levels? *[Chp. 9; Sup. III]*

Labor is paid according to its alternative. Competition among laborers for employment forces wages for each kind of laborers down to the lowest that workers will accept. This is always true, unless there is a scarcity of workers and employers are forced to compete for them.

21. Does capital receive interest according to its current productivity, or according to its productivity in alternative uses? *[Chp. 10; Sup. III]*

According to alternative uses. Capital, like labor, cannot work without land. If capital were not dependent upon land, capital owners would always collect the full increase of capital.

22. Why is the term "profits" misleading in political economy? *[Chp. 10; Sup. III]*

Because it refers to individual distribution of costs (micro) rather than functional distribution among the factors of production (macro). If rent + wages + interest = the total product, then profit can only be composed of some combination of the three payments.

23. What is the margin of production? *[Sup. II]*

In *Progress and Poverty* the margin of production is the best land available free land. More precisely, the margin of production is the best available opportunity for self-employment of labor - if usable rent-free land were available, the best self-employment would be there.

24. Does land always yield rent? *[Chp. 8]*

No. Rent only arises when someone is willing to pay for the use of land. Land will not yield rent if land of equal quality is freely available.

25. Does the rent of land depend on its own productive potential, or on the productive potential of land that can be had for nothing? *[Chp. 8; Sup. II]*

Land only yields rent in comparison with land that can be had for nothing. There was once a time when the island of Manhattan was rent-free!

26. If labor must resort to land of inferior quality to get it free, what happens to the rents on better lands? *[Sup. II]*

They will go up. The relative productiveness of all better lands is now higher compared with that of the free land.

27. What is the law of rent? *[Chp. 8]*

Henry George, following David Ricardo, said this: "The rent of land is determined by the excess of its produce over that which the same application [of labor and capital] can secure from the least productive land in use." If "the same application" seems confusing, remember that we are referring to the application of a certain amount of capital value. Therefore, the "same application" can be compared, even if a much greater amount of capital would be called for to put a more valuable site to its best economic use.

Part IV: How Progress Brings Poverty in Its Wake

28. What is the effect of increase of population on the productive power of labor? *[Chp. 11; Sup. III]*

To improve it. One hundred people can produce far more than one hundred times as much wealth as one person working alone. Increased population makes possible division of labor, specialization and exchange.

29. What does increasing population do to the margin of production? *[Chp. 11]*

Extend it to lower levels, without lessening total productivity. By making the entire community more productive, increased population raises the production that is possible on lower-quality land.

30. What is the effect of increasing population upon rent and wages as proportions? *[Chp. 11; Sup. II]*

Proportionately, rent is increased and wages are lowered.

31. Can increasing population raise rent as a quantity without decreasing wages and interest as quantities? *[Chp. 11]*

Yes - due to the dynamic processes discussed in #28. Increasing population will raise wages at the margin of production, even while it increases rents on all better lands.

32. How do inventions and improvements in the productive arts save labor? *[Chp. 11; Sup. III]*

They enable the same result to be secured with less labor, or a greater result with the same labor.

33. What is the effect of labor-saving inventions on total production? On the demand for land? *[Chp. 12]*

They tend to increase production, and they tend to increase the demand for land. Superior lands will tend to become more valuable, and more land will be put into use.

34. What is the effect on rent of governmental expenditures on roads, drainage, irrigation, bridges, etc.? Offer an example. *[Chp. 12]*

They increase the value of land.

35. Is the increase of rent due to anything done by the landowner, as such? If so, what? *[Chp. 12]*

No. The landowner may perform some labor in purchasing, selling and holding land. Therefore, not all of the income from land would properly be termed rent; some would be wages. However, there is a market for such services, and the wages to be gained therefrom are nowhere near the income to be gotten from owning land. The overwhelming majority of that income is rent, and rent is due to nothing that the landowner, as such, has done.

36. As population grows and material progress advances, why is some land held out of use? *[Chp. 13; Sup. II]*

For speculation. Landowners expect further advances of rent and hold their land for a higher price than its current value.

37. How does withholding land from use affect the margin of production? *[Chp. 13]*

It forces the margin to a lower point (to less useful land) than would otherwise be necessary.

38. Need land be held from use completely to lower the margin? *[Sup. IV]*

No. A great deal of land is put to a less intensive use than it could be; the effect is similar to land being held out of use entirely. Examples are city slums, surface parking lots and various types of "taxpayer" properties.

39. What is the effect of land speculation on the production of wealth? *[Chp. 13; App. I]*

It restricts production by forcing producers to pay more for better land and to resort to lower-quality land. In effect it is a tax on production for which producers get no benefits.

40. What is the effect of land speculation on: *[Chp. 14; Sup. IV]*

a) rent?

Increases

b) wages and interest?

Decreases

Part V: Capital and Labor: Allies or Antagonists?

41. What is interest, in terms of "functional distribution"? How does this differ from "interest" in its commercial sense? *[Sup. I]*

Economic interest as defined by Henry George is that part of wealth which is the return for the use of capital (see #10c). The purpose of this restricted definition is to clearly show the return to capital in the whole society. Commercial interest is any return on an investment or a monetary loan; it often includes compensation for risk, which is classified, in political economy, as wages.

42. Does capital employ labor, or does labor employ capital? *[Chp. 4; Sup. II]*

Labor employs capital. In the lexicon of class struggle, "Capital" is said to "employ Labor" in the sense that a class of "capitalists," who own the means of production, are in a position of power over an exploited class of "laborers." To say that labor employs capital is consistent with our economic definitions; it does not deny that the wages of working people are often cruelly and unjustly low.

43. In what two ways are the quantity of capital increased or decreased? *[Chp. 10]*

By producing capital, or by converting existing wealth into capital. Through the processes of exchange, wealth is convertible into capital, and capital in one form is convertible into other forms.

44. a) What is the maximum return that can be obtained for the use of capital? *[Chp. 10]*

- Its full increase (the full amount by which production was increased by the use of the capital).

b) What is the minimum return?

- The replacement cost of capital.

c) What is the normal point of interest?

- Interest tends to settle around a point which will make the rewards of labor and capital equally attractive - that is, to tend toward giving an equal result to either for an equivalent effort or sacrifice. Thus, in the long run, interest will tend to rise and fall with wages. Forces that tend to raise wages will also tend to raise interest.

45. Name some other types of income that are often confounded with the true earnings of capital. *[Chp. 5; Sup. III]*

Compensation for risk, Monopoly returns, Returns on mortgages that represent land, Income from stocks and bonds that represent land rents.

46. Why do wages and interest tend to an equilibrium? *[Sup. III]*

Because otherwise labor would not accept the use of capital, or capital would not be placed at the disposal of labor. Since both are needed in production, neither can benefit for long at the other's expense.

47. In modern macroeconomic policy, what substitutes for the natural tendency for wages and interest to move toward equilibrium? *[Sup. IV]*

Governments manipulate federal spending and interest rates in the attempt to blunt the impact of boom/ bust cycles in the economy. The marginal rate of wages is replaced by a federal minimum; the general rate of interest is set by a central bank. This does not replace the tendency of wages and interest to seek equilibrium; it merely postpones and deflects that equilibrium in ways that are deemed more acceptable to the voting public.

48. What are the occupations that most frequently use land at the margin of production, upon whose wages all other wages depend? *[Chp. 9]*

The extractive industries, those that procure wealth directly from nature, such as farming, mining, lumbering, hunting, etc.

49. If a person can be self-employed, what is the lowest wage for which that person will work for another? *[Chp. 9]*

What she can earn working for herself.

50. If a person has no opportunity for self-employment, what is the lowest wage that person will accept? *[Chp. 9]*

If there are no mitigating regulations or other enhancements to his buying power, the lowest he will accept is subsistence: enough to keep him alive.

51. Are the laws of distribution laws of quantity or laws of proportion? *[Sups. I, III]*

Laws of proportion.

52. At what common point are rent, wages and interest determined? *[Chp. 9]*

At the margin of production.

53. Do rent, wages and interest account for the full division of the wealth produced? *[Sup. III]*

Yes: by definition. This is the goal of our analysis of "functional distribution" - to account for the full division of the wealth produced in society.

Part VI: The Economics of Booms and Busts

54. Why is land speculation not always profitable? *[Chp. 13]*

Land may go down in value, due to changes in the general economy, in zoning or environmental regulations or in demand for the resources it holds.

55. Why, in a growing economy, does rent always tend to take an increasing portion of the wealth produced? *[Sups. III, IV]*

Because land is fixed in supply, and it is needed for all production. Therefore, when production is increasing, there is a greater demand for the same supply of land.

56. In an open market, what is the effect of: *[Chp. 13]*

a) speculation in commodities?

- It tends to raise the price until production is stimulated, which tends to lower the price again. Speculation in commodities tends to even out fluctuations in their price and supply.

b) speculation in land?

- Does nothing but raise the price, since land cannot be produced.

57. What will be the eventual result of the tendency for land rent to grow proportionally as the economy's output increases? *[Chp. 13]*

A point will be reached where a sufficient number of laborers and capital owners cannot afford to pay the increasing rents, and production will slow down: a recession or depression.

58. What three processes contribute to restoring production after a period of recession or depression? Must these processes function concurrently? *[Chp. 13]*

1) Land values will fall as production declines. 2) New inventions or other increases in productive capacity will counteract the higher cost of land. 3) Labor and Capital will accept somewhat smaller returns to retain their employment. These things can happen independently.

59. Discuss the relationship between land speculation and the banking and finance industries. *[Sup. IV]*

Land values represent a large portion of collateral for new loans. In a growing economy, as land values rise more rapidly than the general rate of economic growth, more and more money can be borrowed for development or for further speculative investments. When this money is spent (for it has been borrowed on the basis of speculative, not current values), it exerts an inflationary pressure. Also, when the real estate bubble bursts, there is a possibility of credit collapse. The Savings and Loan debacle of the 1980s is an example of a credit crunch caused in large part by a speculative bubble in real estate.

60. Is the problem of inflation essentially different from the general problem of recessions? *[Sup. IV]*

Henry George's analysis shows that both inflation and recession are symptoms of the same fundamental maladjustment in the economy: the fact that landowners are able to collect rent without contributing to production, and that land speculation is increasingly attractive as an economy grows. The increasing proportion of wealth that can be taken by landowners tends to increase costs for both consumers and producers.

61. Is the problem of the business cycle essentially different from the general problem of poverty? *[Chp. 14]*

No. Recessions (and inflationary periods) are merely intensifications of the general tendency for poverty to arise with material progress.

Part VII: The Remedy; Its Justice

62. What is the remedy proposed by Henry George for the abolition of poverty? *[Chp. 15]*

To make land common property.

63. How does our analysis so far point to the absolute private ownership of land as the root cause of poverty and depressions?

Land is necessary for all production, and it is fixed in supply. Increased population, education and efficiency all tend to increase demand for land, and increase the incentive to hold it for speculation. Inevitably a point will be reached at which no more usable land is available for free, even though huge amounts of valuable land are held out of use. This creates a tendency toward low wages and a permanent level of unemployment. Increased land speculation will tend to increase the rent burden on producers until production begins to slow down, causing recession/depressions.

64. What two general criteria do economists use to judge policies? Which does Henry George propose to put first — and why? *[Chp. 15; App. II]*

Justice (or equity) and efficiency. George insists that equity (Is it just?) must come before efficiency (Will is work?) because "the sentiment of justice is... fundamental to the human mind." He argues that "in justice is the highest and truest expediency."

65. Do all people have an equal right to life?

Yes.

66. Can human beings live without land?

No.

67. Do all people, therefore, have an equal right to land?

Yes.

68. What constitutes the rightful basis of property, according to Henry George? Do you agree? *[Chp. 20]*

One has the right to own the fruits of one's exertion.

69. How is our current system of land tenure consistent with this principle of the rightful basis of property? *[Chp. 19]*

It allows private ownership of improvements and other items of wealth (except to the extent that their production is taxed.)

70. How does our current system of land tenure violate this principle of the rightful basis of property?

It allows private ownership of the land itself, which is not produced by labor - thus allowing landowners to collect an income which they have done nothing to produce (except to the extent that land rent is taken by the government in taxation).

71. How does the term "real estate" lead to confusion in determining the rightful basis of property? *[Chp. 20; Sup. I; App. IV]*

Because "real estate" includes both land and improvements. These two things are economically very different. Improvements are produced by labor. More of them will be supplied in response to greater demand, and they must be maintained by labor to keep their value. Land is not produced by labor. More of it can never be supplied, and its value can increase without any input of labor whatsoever.

Part VIII: Our Backwards Tax System and How to Fix It!

72. If land is justly common property, how can a person retain undisturbed possession and use of land and still satisfy the equal rights of all? *[Chp. 20]*

By paying its rent to the community.

73. To whom does rent justly belong? Why? *[Chp. 20]*

To the community, because the community produces it. Rent represents the advantages that inhere in a site because of the entire community's activity.

74. How would the private ownership of improvements and personal wealth be affected by community collection of rent? *[Chp. 20]*

Everyone, including the present landowners, would retain ownership of improvements and personal property.

75. Compare George's proposal with customary "left-wing", "right-wing" and "middle-of-the-road" proposals. *[App. III]*

"Left-wing" proposals aim to allay the greed attendant to market economies by concentrating more of the product in public hands. "Right-wingers" seek to unleash the social benefits of competitive markets by curtailing government intervention and allowing more wealth to stay in private hands. "Middle-of-the-road" approaches aim for a balance of public and private ownership. None of the conventional approaches make a qualitative distinction between public and private ownership as does George's. Rent belongs to the community, in George's proposal, because it is the fund that the community creates. Wages and interest belong to the individuals that produce them.

76. How does the treatment of land as absolute private property stand in the way of its highest and best use? *[Chp. 20; Sup. IV]*

Individual owners are allowed to prevent others from using land that they are unwilling to use themselves.

77. What practical method does George propose for the treatment of land as common property? *[Chp. 20]*

To collect the rent by taxation.

78. How would land titles be affected by this proposal? *[Chp. 20]*

They would not be changed.

79. How would the adoption of George's proposal affect other taxes? *[Chp. 22; App. V]*

George proposes to substitute the appropriation of rent for all taxes now imposed on labor and capital. In any case, taxes on labor and capital could be reduced by the amount that is collected from land rent.

80. What are the standards (or "canons") to which taxation should conform, according to Adam Smith? *[App. V]*

Taxes should: 1) Bear as lightly as possible on production; 2) Be cheap and easy to collect, and fall as directly as possible on the ultimate payers; 3) Be Certain; 4) Bear equally so as to give no individual an advantage.

81. Give some examples of: *[Chp. 17; App. V]*

a) indirect taxes

- Sales taxes, tariffs on imports, Value-added taxes.

b) regressive taxes

- Sales taxes, Value-added and flat taxes - any tax that falls more heavily on poor people.

82. Rate the following kinds of tax according to the canons of taxation:

a) income tax

- Expensive to collect, uncertain and prone to corruption.

b) sales tax

- Indirect, expensive and uncertain to collect from merchants, gives advantage to the wealthy.

c) conventional property tax

- Two different taxes. The tax on buildings acts like a sales tax; the tax on land values is described below.

d) land value tax

- Easy and cheap to collect, certain (cannot be hidden), direct and equitable (a tax on land rent is a payment for benefits received by the site owner).

83. Compare George's proposal to the modern theory of "broad-based" taxation. *[Chp. 17; App. V]*

"Broad-based" tax theory assumes that all taxes are similarly bad in their penalizing effects on production, and therefore should be spread out to many different sources to share the bite of taxation as equally as possible. George holds that only one source of public revenue is good for the economy; all others are penalties on production.

84. Does a tax on rent enable the landowner to pass it on to the user in the form of a higher rent? *[Chp. 18; Sup. V; App. V]*

No. Since land is not produced by labor, taxes on rent cannot lessen the supply, and thus cannot raise rents. The owner cannot collect more rent, because rent is determined by the margin of production. If the landowner attempted to shift the tax by charging the tenant more rent, the rent would be more than the land was worth and the tenant would move. This principle does not apply to buildings, which, like all other products of labor, tend to be competitively priced. A tax on buildings will increase their cost, but the pre-tax cost of a land site is already all that the market will bear. So, to tax the rent of land is simply to divide the rent between the government and the landowner.

85. Is it possible to separate the value of land from the value of improvements? *[Chp. 18]*

Yes. Assessors customarily estimate these two values separately. Frequently land is owned by one person (to whom rent is paid) and the building by another. If buildings are destroyed, land value remains.

86. What machinery already exists for the public collection of rent? *[Sup. V]*

Taxation. We already take part of the rent in property taxes; it would be a simple matter to increase the percentage (while simultaneously lowering other taxes) until all the rent were taken.

Part IX: The Effects of George's Remedy

87. What would be the effect on production if: *[Chp. 22]*

a) taxes on wages and interest were abolished?

- Demand for goods and services would be increased; production would rise.

b) land rents were publicly collected?

- Better natural opportunities would be open to labor, thus stimulating production.

88. George claims that the full public collection of land rent would raise the returns to labor and capital. How would that come about?

It would raise the margin of production, improving the opportunities for self-employment and thus raise wages and interest. We know this would happen because we know that a very large amount of valuable land is currently held out of use, or is grossly underused. Public collection of land rents would force this land into use, freeing up large amounts of economically useful land at the margin.

89. If the full rental value of land were taken in taxation, what would happen to: *[Chp. 22; App. IV]*

a) the selling price of land?

- It would go down to zero.

b) land speculation?

- It would be eliminated.

c) the rental value of land?

- It would remain, and probably be enhanced in time as production increased.

90. If land values were the source of public revenue, what would be the effect on *[Chp. 22; Sup. V]*

a) working farmers?

- It would be much easier to acquire and keep land, and the removal of taxation on production would make it much easier for working farmers to make a living.

b) the demand for farm land near cities?

- It would be eased, for the main cause of urban sprawl is the epidemic of land speculation that artificially increases land values.

c) urban apartment dwellers?

- Taxes on buildings and other wealth would be removed, thus raising effective wages. Apartment rents would come down as land taxes created the incentive to build more units.

91. Compare George's remedy with the "enterprise zones" proposed to alleviate urban decay and stagnation. *[Sup. V]*

"Enterprise zone" proposals aim to bring business activity into a depressed area be removing some of the tax burden on buildings, enterprises or employers within the zone, usually temporarily. As Henry George's "Story of the Savannah" shows, cities are enterprise zones in their very nature. George's remedy would permanently remove penalty-type taxes from buildings, sales and employment. It would stimulate employment, thus reducing crime and removing many of the incentives that turn urban neighborhoods into slums.

92. How would a single tax on land values affect the complexity of government? *[Chp. 22]*

It would simplify government by eliminating our vastly complicated tax agencies and cutting down on the volume and variety of tax legislation.

93. If land values were the source of public revenue, how would pollution and energy use/conservation be affected? *[Sup. V]*

By creating incentives to reverse the tendencies toward urban sprawl, the public collection of land rents would bring about a vast saving of energy and resources used in providing transportation, energy and other services out past vast areas of stagnated and underused land. Environmentalists urge us to remember that the air and water are also land, and the ability to pollute them unchecked while others pay the cost of the damages is a form of unearned income. If the natural opportunities are understood to be public property, then their maintenance is a matter of public interest.

94. If land speculation were eliminated, would a market economy be forced to trade between periods of high inflation and high unemployment? Explain. *[Sup. IV]*

No. As we discussed in question #60, inflation and unemployment are symptoms of the basic economic distortion cause by land speculation and taxes on production. If the burden of taxation were removed, and the incentive to hold land for speculation were eliminated, involuntary unemployment would be eliminated and the boom/bust cycle would be arrested.

Part X: The Law of Human Progress

95. Are different levels of civilization due more to differences which inhere in individuals or in society? *[Chp. 23]*

To differences which inhere in society. All human beings are essentially alike.

96. What determines the amount of human mental power devoted to progress? *[Chp. 23]*

That which is left after mental power is expended in the non-progressive pursuits of maintenance and conflict.

97. What are the two essentials which together make up the Law of Human Progress? *[Chp. 24]*

Association and equality.

98. Are increasing inequities in society the necessary result of social growth? *[Chp. 24]*

No. They can be prevented by making the proper social adjustments as new conditions arise.

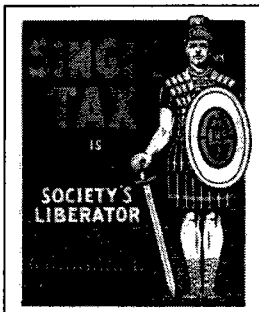
99. Does political equality alone ensure the equal distribution of wealth and power? Explain. *[Chp. 25]*

No. It does not prevent the tendency to inequality in the ownership of land, which leads to unequal distribution of wealth and power.

100. a) Briefly summarize the most important points of the course.

A summary should include: Definitions of economics terms. The laws of distribution. Land monopoly and land speculation as the basic cause of poverty, and boom/bust cycles. Public collection of land rent through land value taxation and abolition of other taxes, as George's remedy. The effects of George's remedy, particularly as they effect urban and environmental problems. The law of human progress.

b) Add your own evaluation.



Henry George Institute
121 East 30th Street
New York, NY 10016
(212) 689 - 0075
teacher@henrygeorge.org

Robert Schalkenbach Foundation
149 Madison Avenue Suite 601
New York , NY 10016

Tel 212 683 6424 Fax 212 683 6454

Schalkenba@aol.com