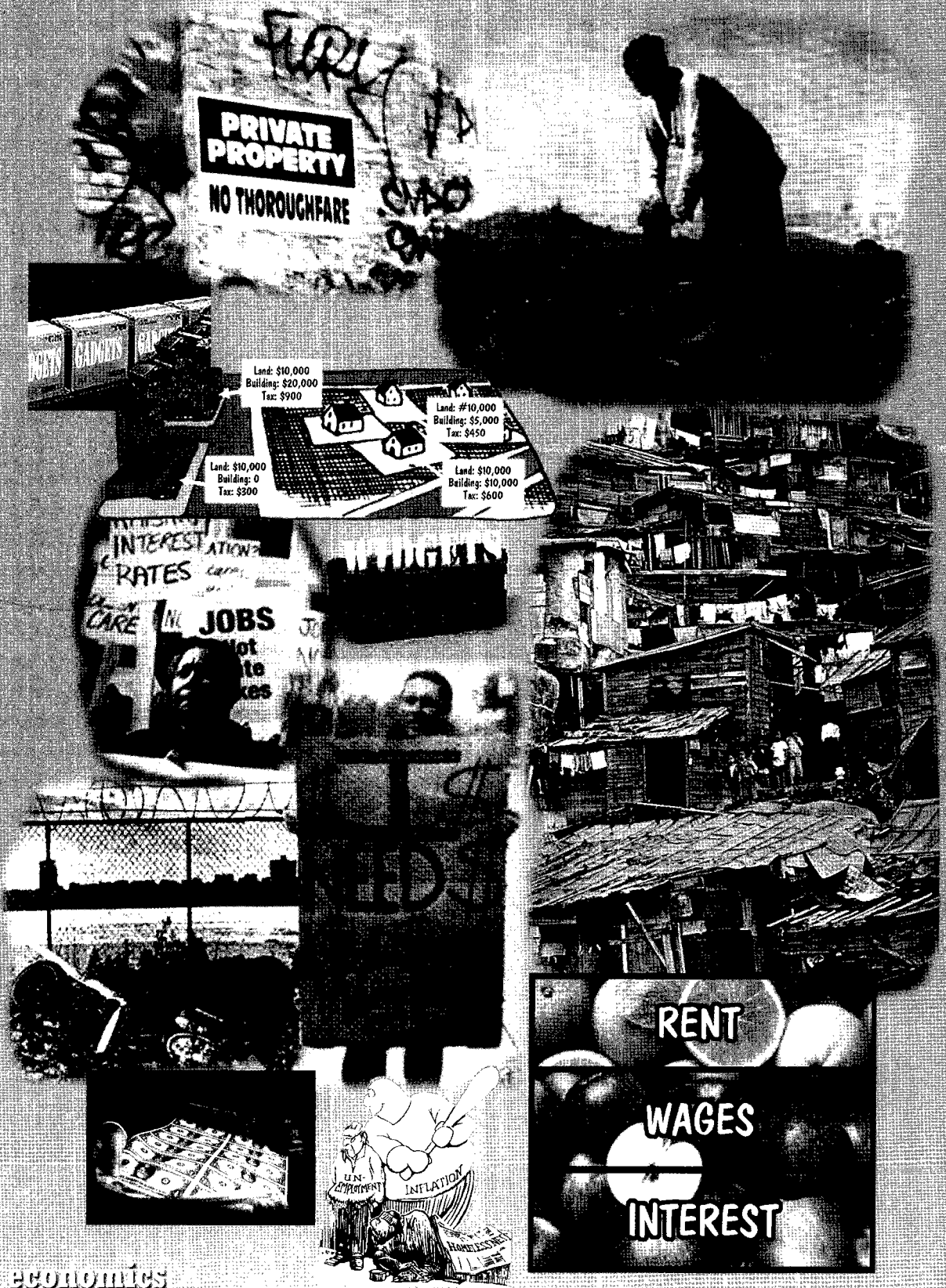
Understanding Economics



A course in fundamental economics based on *Progress and Poverty* by Henry George

Robert Schalkenbach Foundation

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 (www.henrygeorge.org) by the Henry George Institute . 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. Many of the supplemental readings, particularly in the appendices, are in-depth explorations that can be left out of shorter or more basic courses.

You will notice that the lessons do not follow a straight path through the textbook; they skip around a bit. This is because the course is structured in a way that seeks to anticipate 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 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, former Director of the Henry George Schools in Philadelphia and New York. 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 revised second edition includes newly updated supplemental readings, and I want to again thank Mark A. Sullivan and the folks at the Schalkenbach Foundation for making it possible. — *L. D.*

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 www.henrygeorge.org. ***Second edition, 2005.***

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Understanding Economics: 102 Questions

Lesson 1 — 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]*

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

3. What is Wealth, according to Henry George? *[Chp. 2; Sup. I]*

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

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

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

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

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

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

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

Lesson 2 — The Problem of Poverty. Was Malthus Right?

11. Discuss ways in which the common meaning of each factor is different from its economic sense. *[Sup. I]*

    a) land

    b) labor

    c) capital

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

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

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

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

a) Overpopulation causes poverty.

b) Poverty causes overpopulation.

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

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

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

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

20. Do wages depend on labor's productivity, or on its alternative? Is this true at all wage levels? *[Chp. 9; Sup. III]*

Lesson 3 — Wealth Distribution: There is Such a Thing as Natural Law!

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

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

23. What is the margin of production? *[Chp. 8; Sup. II]*

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

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]*

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

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

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

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

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

Lesson 4 — How Progress Brings Poverty in Its Wake

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

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

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

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

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

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

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

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

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

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

a) rent?

b) wages and interest?

Lesson 5 — 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]*

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

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

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

b) What is the minimum return?

c) What is the normal point of interest?

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

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

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

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

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

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

Lesson 6 — The Economics of Booms and Busts

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

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

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

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

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

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

a) speculation in commodities?

b) speculation in land?

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

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

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

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

Lesson 7 — The Remedy; Its Justice

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

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

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

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

66. Can human beings live without land?

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

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

69. How is our society's current legal basis of property consistent with this principle of the rightful basis of property? *[Chp. 19]*

70. How does our current legal basis of property violate this principle of the rightful basis of property?

Lesson 8 — Our Backwards Tax System and How to Fix It!

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

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]*

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

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

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

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]*

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

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

79. How does the contrast between New Hampshire and New Mexico demonstrate the soundness of George's remedy? *[App. V]*

80. What is the connection between the "Resource Curse" and the overall problem of poverty? *[App. V]*

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

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

Lesson 9 — The Effects of George's Remedy

83. Give some examples of: *[Chp. 17; App. VI]*

a) indirect taxes

b) regressive taxes

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

a) income tax

b) sales tax

c) conventional property tax

d) land value tax

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

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

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

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

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

a) taxes on wages and interest were abolished?

b) land rents were publicly collected?

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

91. 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?

b) land speculation?

c) the rental value of land?

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

a) working farmers?

b) the demand for farm land near cities?

c) urban apartment dwellers?

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

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

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

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]*

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

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

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

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

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

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

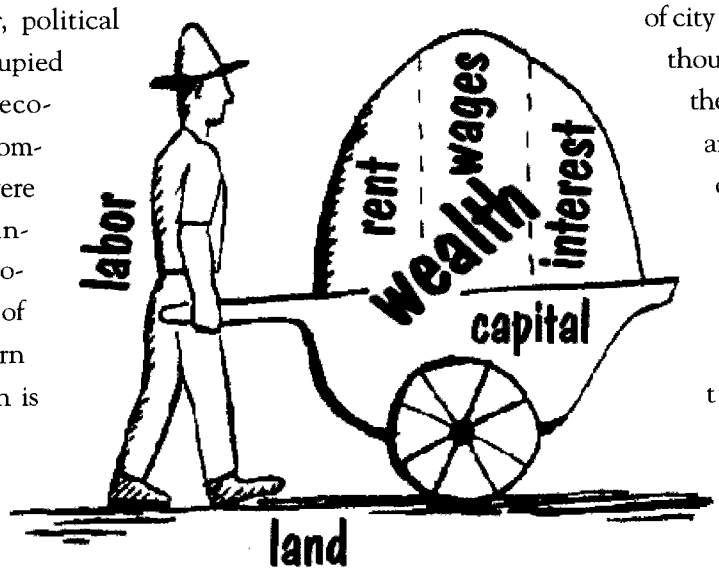
b) Add your own evaluation.

Supplement I

"Economics" and Political Economy

"Economics" or "Political Economy" is the study of how people get a living. Although these two terms have sometimes been used interchangeably, there is a subtle distinction to be made between them. "Political Economy" is the older term, and it was used by Henry George to name his field of study. Most standard textbooks of economics today will define the discipline as "The science of how people make choices for the allocation of scarce resources to satisfy their unlimited desires." That is a statement of the basic dilemma called "the problem of scarcity."

A century ago, however, political economists were preoccupied with questions of the economic life of the entire community — in short, they were concerned with the principles that underlie the production and distribution of wealth in society. Modern economics, most of which is loosely categorized under the heading of "Neoclassical Economics" (to distinguish it from the supposedly archaic, "normative" work of Adam Smith, David Ricardo, Henry George, etc.), pays little attention to the distribution of wealth. Why the change? That is a question we will ponder as we go through this course.



Henry George's Preoccupation with Land

One of the central characteristics of this course is its steadfast insistence that land is a distinctive factor of production, which must be considered separately from the other two factors, capital and labor. This is not a point that is emphasized in contemporary economics. Why not? Sometimes it is argued that land was once a very important economic factor, way back when, but the complexity and advanced technology of modern societies has freed them from dependence on land or nature.

But the most basic facts say otherwise. Land has not changed in any essential way since George wrote about it. Land is "limitational," meaning some of is needed for all production, for all human life and activity. It is true that there are land-saving techniques that let some production occur with very little land, but never with none. There are also labor-saving techniques — and of the two, labor-saving techniques seem to be pulling ahead of the land-saving kind.

In cities, activities take less land area per head, but more land value, because the price of city land is hundreds, sometimes thousands of times higher than the price of rural land, per unit area. George reminds us that city land is our most valuable natural resource.

We must remember, too, that economic land includes all natural opportunities, not just "the ground". Radio and TV communications, for example, use specific frequencies of the electromagnetic spectrum — each a unique natural opportunity. George conceives and defines land broadly, to include "all the material universe outside man and his products."

Thus, George is leading us into a tripartite economic world consisting of Land, Labor, and Capital. Although three is a small number, this poses problems for the human mind and comprehension. Most thinking is dualistic: Ying and Yang, Good and Evil, East and West, God and the Devil, Friend and Enemy, Them and Us, Female and Male, Black and White, Liberal and Conservative, Left and Right, Believers and Infidels, Republicans and Democrats, Haves and Have-nots, Orthodox and Heterodox, etc. etc. Dualistic thinking limits most economists. Their world consists of only two factors, Labor and Capital. George challenges us to stretch our minds and

An Exercise:

Here is a list of things that (probably) have value. Are they all forms of wealth? How would you classify them, using the terms of political economy?

- ✓ food in a restaurant
- ✓ oil in the ground
- ✓ your Mom's old house, which you rent to tenants
- ✓ fish in the ocean
- ✓ a truck
- ✓ a building site
- ✓ food on your table
- ✓ a house you live in
- ✓ a sports car
- ✓ a $100 bill
- ✓ teaching
- ✓ ditch digging
- ✓ computer programming
- ✓ managing a business
- ✓ playing music in the street
- ✓ a broadcast frequency
- ✓ a certificate for 100 shares of Microsoft
- ✓ a patent

rise above that.

The point of having three factors is this: all production requires some of each; they are mutually exclusive; and they are not convertible into each other, so the returns to each factor are determined by common forces, but separately from returns to the other factors.

Here, then, are the classical definitions of economic terms as used in *Progress and Poverty.*

Wealth

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

It is thus seen that wealth must have 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.

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 things are wealth that the production of which, or the destruction of which, increases or decreases the total of goods that satisfy human desires.

4) Wealth **has exchange value.** That which will not bring something of worth to its possessor in a trade, sale or other transaction, 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.)

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. The trees in a virgin forest are land; in a cultivated forest they are wealth.

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. (In a larger sense, exertion expended in such services as acting, dentistry, teaching, etc., is considered as labor, but 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. A service has all the characteristics of wealth except one: it is not material.)

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 money loaned. 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".

The Importance of Consistent Definitions

George defines his terms carefully in advance, and sticks consistently with his definitions. It is all too common for economists to muddy the waters by not defining their terms, then by using them in shifting (and often shifty) ways.

The three factors of production work together to produce a "pie" that George calls "wealth." (Today we would say "the product," including goods and services.) From this, Land gets Rent; Labor gets Wages; and Capital gets Interest. When Henry George seeks to identify the Laws of Distribution, he is looking for the principles that determine what proportional shares go to the three factors under certain conditions.

It is not Land itself that gets rent, of course, but the landowners. It is not Capital itself that gets interest, but the owners of capital. If someone owns both, and manages them himself, then that person gets an income, called "profit," which contains all three elements: rent, interest, and wages-of-management. The job of functional distribution, an analytical approach which George pioneered, is to break profit down into its components, and to apportion it among the three factors that account for it.

Businesses do not earn profits just for being in business, but for selling goods and services. To do so requires the use of inputs, which account for the sales. If they do not own the inputs, they hire them as they go, paying about as much for them as they add to sales. "Profit" comes from the inputs they do own. Apportioning profit among the owned inputs is called "imputing."

Where does the payment called "profit" fit into wealth distribution, then? It doesn't, at all. After im-

puting away profit to the inputs that account for it, there is none left. This method, introduced by George, has become standard (without credit) in micro theory today. The easiest way to grasp that is to picture the manager as hiring all the inputs, including himself. Alternatively, think of the firm as a corporation that hires and pays all its managers, deducting their salaries from profit. Then it rents all its space and equipment. It borrows to finance all its inventories. In financial terms, it has no equity. It is a "disembodied spirit." Under competitive conditions it will have no profit, either.

"Profit" is a concept that belongs in the study of personal distribution, not functional distribution. Land as such may yield a high ground rent, but no personal profit, if the owner has borrowed heavily on it. Then she pays out all the ground rent to the bank as interest, leaving no profit to herself. That does not mean there is no rent; it just means the bank gets it.

The purpose of studying functional distribution, as we will see, is to determine the forces that make rent, interest, and wages, rise and fall. That is the only way we can identify patterns of wealth distribution in the entire society. On the other hand, the level of "profits" rises with the ratio of businesses' net worth to their total assets (NW/TA), and falls when that ratio falls, telling us nothing useful about the levels of interest or rent. Profits may actually rise, from a rise of rents, while marginal returns on investing in new capital are falling.

What about bonds, stocks, etc.?

George leans hard on distinguishing material wealth from mere paper claims on wealth. Today we would say he distinguishes social accounting from private accounting, and warns against double counting. Again, he is a pioneer (without credit) in what is now routine wisdom in the better studies toting up national wealth. In social accounting, one person's claim is another person's liability, and they cancel out.

When you think about it, it is obvious. No economist would disagree today, overtly. However, George warns us that other economists often forget to think about it. They slide back into the careless metaphors of private accounting, where paper claims to wealth are wealth to individuals, and misapply them to counting up social wealth.

Let's take another look at those items we set out classify. Did your list look like this?

LAND
- ✓ oil in the ground
- ✓ fish in the ocean
- ✓ a building site
- ✓ a broadcast frequency

LABOR
- ✓ teaching
- ✓ ditch digging
- ✓ computer programming
- ✓ managing a business
- ✓ playing music in the street

WEALTH FOR CONSUMPTION
- ✓ food on your table
- ✓ a house you live in
- ✓ a sports car

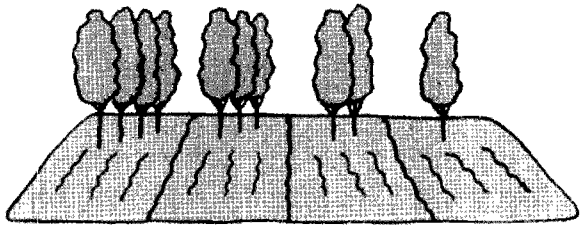
WEALTH USED AS CAPITAL
- ✓ food in a restaurant
- ✓ your Mom's old house, which you rent to tenants
- ✓ a truck

NONE OF THE ABOVE
- ✓ a patent
- ✓ a $100 bill
- ✓ a certificate for 100 shares of Microsoft

Supplement II

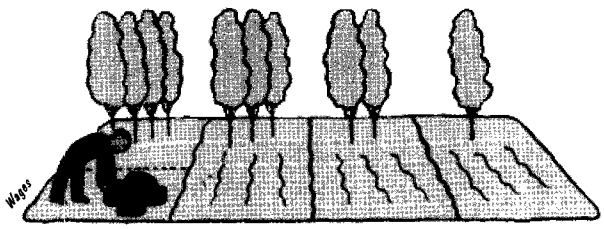
The Law of Rent

1. Different Grades of Land



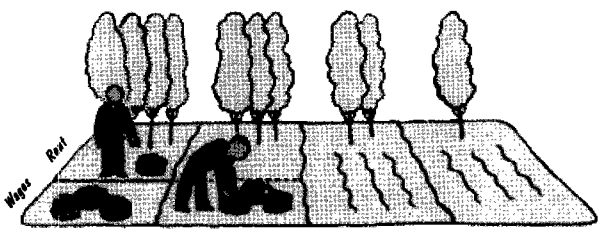
Here are four sections of a piece of land, with natural resources (fruit trees). Let us assume you can get one bushel of fruit from each tree. On the best section, you can get four bushels in one day. On the next section, with the same day's labor, you can get only three bushels.

2. First Comer — All Wages



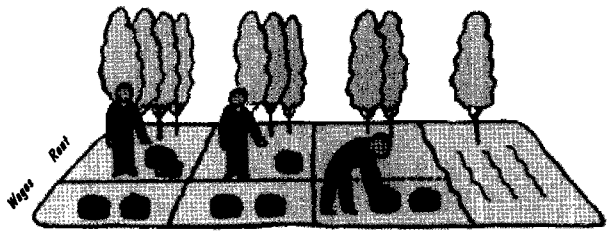
So far, all this land is free. The first person who comes to pick fruit will appropriate the best land available. This land becomes the margin of production (indicated by the dotted line). One day's labor gains four bushels: the worker's wages.

3. Second Comer — Rent Begins



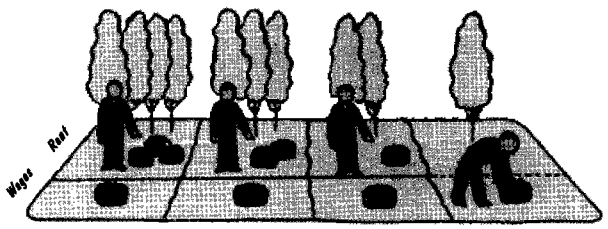
The next comer has to be content with the three-tree section. (This now becomes the margin of production.) Here, three bushels are the reward for one day's labor. These two people do the same work, yet one gets four bushels and the other only three. Why? Because of the difference in the land. Since the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

4. Third Comer — Further Rise of Rent



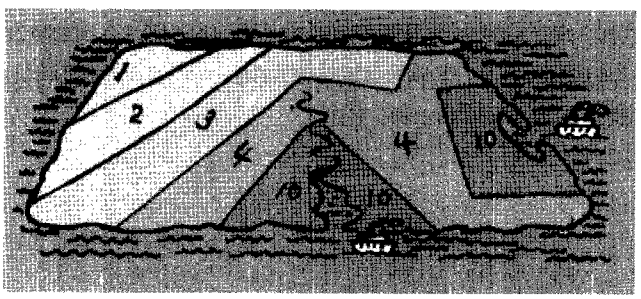
The third comer has to use the two-bushel land (which now becomes the margin). Wages on all lands are now two — for that is the most that can be had without the payment of rent. If the third comer wanted to work on the three-bushel land, its owner would take one bushel as rent. The rent represents what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

5. Fourth Comer — All Land Used



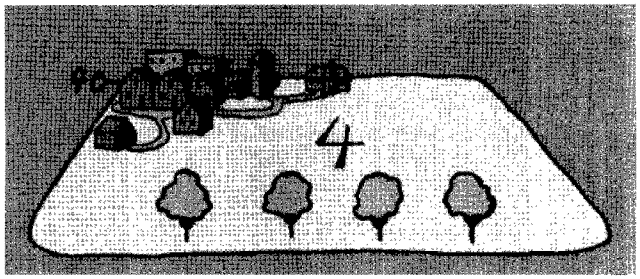
When the fourth comer arrives, the only land left is the one-bushel land. Now, all the other lands have a rent in proportion to their superiority over this land, which is now the best land available without the payment of rent: the margin of production.

6. Other Natural Differences



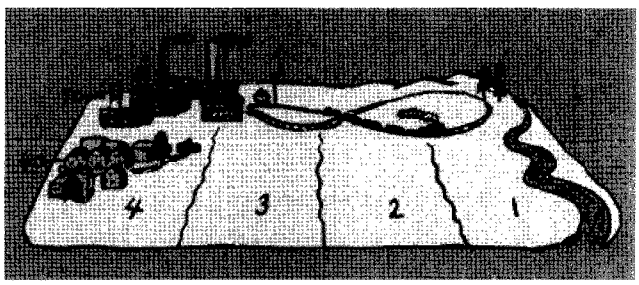
So far our examples have been very simple, using only one variable. In the real world, that never happens! The operation of rent is influenced by the great variety of factors that make one piece of land superior to others. A good harbor or a navigable river, for example, makes the surrounding land valuable.

7. Growth of Population



Assume that a good piece of agricultural land (as in our earlier charts) yields four. 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?

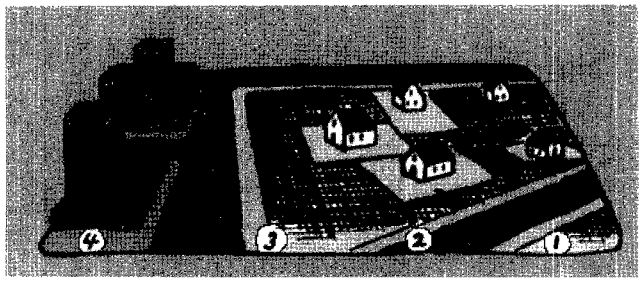
8. Effect of Industrial Growth



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.

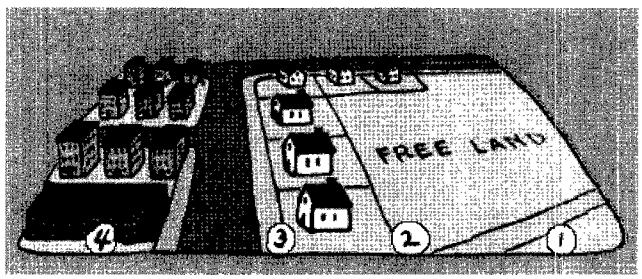
"Here, let us imagine, is an unbounded savannah...."
(chp. 12)

9. 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. *(See page 40)*

10. 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.

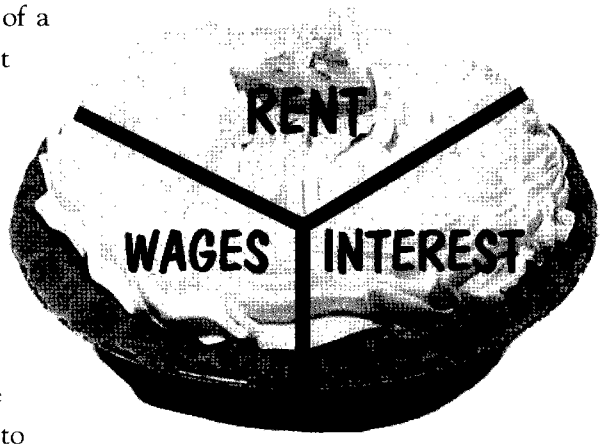


Supplement III

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 $500,000 — 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 rent or buy 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 us 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 what we own — 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 profit 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 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 it is a zero sum.

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 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 those of monopolists (particularly landowners) are indeed opposed. Labor and capital seek to engage in the production of wealth, and gain a return for it. To do that, they must have land. But the landowner can command a payment from them, not because of any contribution to production, but merely for access to natural opportunities. 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" as Henry George defined it.*

Land Speculation and the Boom/Bust Cycle

A theory of economic boom and crash is one of George's two great purposes in *Progress and Poverty.* What is the root cause of the "paroxysms of industrial depression"?

George says that the speculative rise of land prices cuts into the earnings of labor and capital. Land rents and prices rise at a faster rate than general economic growth, because of two unavoidable facts:

1) Land is fixed in supply.
2) Land is needed for all production.

When sufficient numbers of workers and capitalists cannot afford to produce at the higher rents brought about by growth and speculation, production begins to stop. Let us examine some of the implications of this fact for 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 too high, 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.*** Let's say that you own some land, which you might decide to improve. But, you have the option of selling the land to a speculator. Why improve the land if the profits on your 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.

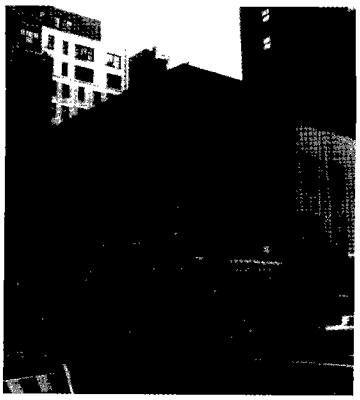
— ***Banking and Credit is Destabilized.*** Builders need land, and borrow to buy it, even though the price is too high, gambling that future rises in rents will let them repay the loan. If these rent rises fail to happen, they go bankrupt. Their buildings are not destroyed, but the capital they used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



Here is a shot of what was, for decades, the largest piece of vacant land in New York City, 53 acres of the old Penn Central rail yards. Donald Trump held this land for many years until, after epic wrangling and negotiation (including the re-routing of the West Side Highway at public expense) the land was developed.

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.

This is not a new phenomenon. John Stuart Mill had written (before Henry George) of a tendency of lenders, when legitimate demand for loans dries up, to "lower the quality of credit" by accepting high-risk loans they would have spurned before. Because land



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

value is such a large part of collateral on loans, and land values fluctuate wildly in business cycles, the tendency toward these volatile, high-risk lending practices is very strong.

Why don't capitalists simply join in the speculative game? Couldn't they buy land at speculative prices and use it while it continues to rise in value? Many do. In a sense, they all do — because no one can justify buying and holding land at today's prices without counting the future advance in price or rent as part of the gain. Thus everyone is hooked, forced by the market to participate in the speculative game, once it gets started. All become implicated and habituated, emotionally and politically, whether they like the principle or not.

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 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 organize and pass counter-productive rent-control laws. The economy-wide net result will be less production, more unemployment.

The question that many modern-day economists fail to ask is this: *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?*

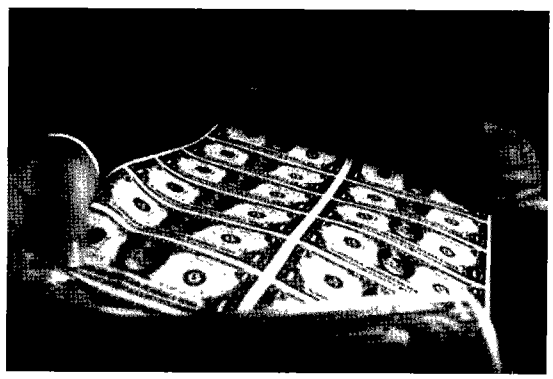
This has several results:

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

— Rising land value becomes part of the incentive to build. It can't go up forever. When it levels off at a high level, it becomes a serious drag. When it starts falling, it is worse.

— 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 that never materializes. In and after a crash, bid prices for land fall, but asking prices stay high, so sales drop like a stone. This behavior is inconsistent with the premises of the "rational expectations" theorists, but is good history: it has been extensively documented, over several giant cycles of boom and crash.



Land Speculation and Inflation

There are as many different theories of the basic cause of inflation as there are for depressions. 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 said little about inflation in *Progress and Poverty*; in his day industrial depression was a much more serious problem. A strong connection is implied in his reasoning, however. Consider the following statement regarding George's remedy (which this course is soon to consider): "Taxes may be imposed upon the value of land until all rent is taken by the state, without reducing the wages of labor or the reward of capital one iota; without increasing the price of a single commodity, or making production in any way more difficult."

What has this to do with inflation? 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,

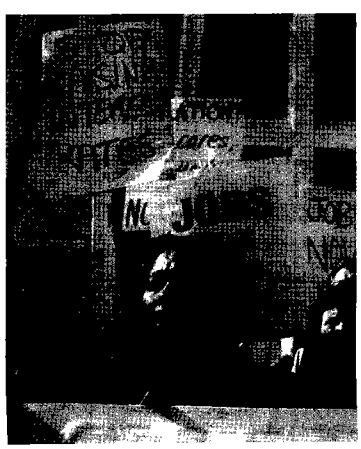
due to rising demand for the same supply of land. The tendency of this process is, as we have seen, to eventually raise land rents beyond the marginal ability of labor and capital to pay them — and depression is the result.

Is there any way that this process can be forestalled, temporarily at least? Yes: the money supply could be increased. Remember, the buying power of landowners is increased by land speculation, even though this makes no contribution to actual production. What landowners gain, laborers and capitalists lose. But the effect of this can be blunted by increasing the money supply, without any increase in production: that's called inflation. Real wages might be declining in the long run, but people would still have the same amount of money to spend — and they will try to spend it before it loses its value. Thus, an increase in the money supply can create a surge in demand, keeping a period of economic growth alive — perhaps until the next election. Eventually, increased rents will consume the value of the extra money. Then, one of two things must happen: either the money supply must be increased further, risking runaway inflation — or there must be a recession.

Everyone remembers the disastrous effects of runaway inflation in the Weimar Republic prior to the rise of the Third Reich. What is less generally known, however, is how large a role land speculation played in that hyperinflation.

Is Full Employment Possible?

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. It seemed that one came at the expense of the other. Thus, employment surged until inflation started to heat up, then monetary brakes were applied, inflation slowed down, and unemployment started to rise. It became a truism that universal employment was





not possible, in a modern market economy, without creating unacceptably high inflation.

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 major types 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.

This 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 are passed on into consumer prices: 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 the reverse: that unless land speculation is removed from the economy, full employment can only be achieved at the risk of high inflation.

Sensational Experience in Denmark

From the 1973 paper "Economic Liberalism" by the Danish economist Knud Tholstrup.

Sensational practical experience was gained in Denmark in the years 1957-60 when the Danish Justice Party — propagating land value taxation, free trade and equal rights — formed a so-called land tax government together with the Social Democrats (Labor) and the Radicals (Liberals). The three parties made an agreement based on: 1) Collection of land rent, 2) Liberalization of trade, and 3) A tax freeze....

It was thus generally expected after formation of the government that some kind of land value taxation would be introduced, with the result that land speculation ceased immediately....

The economic effects of the cessation of land speculation were astounding and aroused much attention far beyond the borders of this country. The *New York Times* wrote: "Big Lesson from a Small Nation," and professor Commager recommended that other nations learn from Denmark's example.

Prior to the election of 1957, Denmark had a sizable deficit on her balance of payments, high foreign debt, a relatively high interest rate, big unemployment figures and an annual rate of inflation of approximately 5%. Devaluation threatened.

The following improvements took place in the next 3 $^1/_2$ years (1957-1960):

1. The balance of payments deficit became a surplus.
2. Denmark's total debts abroad were reduced to one quarter of their former level.
3. The rate of interest — and thus all rents in new housing — went down.
4. Unemployment was soon replaced by almost full employment, together with considerable increases in production and wages.
5. Inflation was brought to a standstill
6. No new taxes during these 3 $^1/_2$ years.
7. Import restrictions were lifted and duties cut.
8. There were no strikes.

At the general elections in 1960, however, the opposition... used the hitherto largest sum ever in any Danish election campaign, financed by the Conservatives and land-owner associations. With its limited financial resources and lacking support from the daily press, the Justice Party was unable to withstand the violent attack. The party lost half of its votes, and was unable to collect the minimum required for representation in parliament. Agitation against land tax legislation continued after the election and the new, weak government gave in, in the face of strong pressure from land-owner associations, and promised that the new law would be repealed, and this was done in 1964, just before its effects made a real impact.

After this the following took place:

1. The currency surplus became a currency deficit.
2. The annual deficit on the balance of payments is now, 12 years later, 4 times higher.
3. The effective rate of interest doubled.
4. Land prices jumped [by a factor of 6].
6. Rents in new housing are now six times higher.
7. The rate of inflation rose from barely 1% to 8.6% the year after repeal of the land tax law in 1964.
8. Taxes have risen again and again and are today five times as high.

A comparison between the three periods, before, during and after the so-called "land tax government," gives a clear picture of the importance of eliminating land speculation and unearned increment.

Henry George's Remedy

I. Common Property in Land

"We must make land common property," Henry George declared. Some of his followers felt that he had made a tactical mistake with that statement. What did he mean by it? Was he a "commonist"?

Land, by its very nature, is common property — and our laws and traditions already go far toward recognizing it as such. Henry George proposed that the rent of land should be paid to the community. This payment would satisfy the equal rights of all other members of the community — without disturbing individual 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).

The concept of "conditional private property in land" is well-known to anyone familiar with modern laws concerning real estate. In legal terms, "selling a piece of land" is a *non sequitur*. What is transacted is a "bundle of rights" that attaches to a particular site. These rights could include surface rights, subsurface mineral rights, aquifer use rights, air-space rights, etc. Henry George insisted that we allocate the bundle of rights according to the moral basis of ownership. Society must grant secure land tenure, refuse to confiscate the products of labor, and "not sell the land for ever" — by collecting, for society, the socially-created rental value of land.

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.

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, 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.



"Seeing the Cat" has long been a slang term for achieving an understanding of Henry George's ideas. Where did this expression come from? Like the role of land in the economy, the cat in this old drawing is utterly unmistakeable, once it comes clear. Do you see the cat?

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 Asia and Latin America, land ownership is often extraordinarily 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 — and private collectors of rent — 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 frequent result has been 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.



"This bull, a very type of massive strength, who, because he has not wit enough to see how he might be set free," wrote Henry George in Protection or Free Trade, *"...seems to me no unfit emblem of the working masses." It is enshrined over the entrance of the Agricultural College in Odense, Denmark.*

III. How Land Value Taxation Can Be Applied

Henry George proposes to "abolish all taxation save that upon land values." (This has been called the "Single Tax.") Many nations already take some rent in taxation — directly, in the form of the real property tax. They would only have to make some changes in our modes of taxation to take it all. Many less-developed nations, however, lack systems for registering land ownership and assessing values. Their first step would have to be to establish these procedures.

We must realize, however, that the present system of "property taxation" is a tax on real estate, and real estate is comprised of two very different elements: wealth (buildings and improvements) as well as land. So, the first step toward implementing Henry George's remedy would be to increase the levy on land and simultaneously decrease the tax on improvements.

Simply removing the tax burden on buildings would be an immense boon to both urban and rural economies — but George's remedy would not stop there. Its ultimate goal would be to remove all taxation on the production of wealth, substituting the collection of the full rental value of land for public revenue.

IV. Land Value Taxation Around the World

Here is a brief account of various places in the world today where land value taxation has been partially applied and improvements are partially or fully exempt. 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.

Denmark — Although Denmark collects much revenue from taxes on incomes and products, she still collects about 50% of the total annual ground rent through various methods. A land valuation is held about every five years. Danish methods are as follows:

1. Rental of government-acquired land to farmers at 4% of its selling value. About 12,000 small farmers rent their land in this way.

2. Local and national taxation of land values, with consequent reduction of taxes on improvements.

3. A national tax on increases in land values.

Results are impressive. Danish farm tenancy dropped from 42.5% in 1850 to less than 5% today. Productivity is high and a high standard of living prevails.

Australia — All six states and a majority of the municipalities in the Commonwealth of Australia tax land values to a certain degree, and some exempt improvements in whole or in part. However, there are many other non-real-estate taxes.

In New South Wales, for example, all local taxing units tax land values only. There is no state land value tax, but the state collects royalties on minerals. The City of Sydney is the largest city in the world to derive all its municipal revenue from land value taxation. Building has been encouraged, slums eliminated and the price of land stabilized.

Hong Kong and *Singapore* — Both of these Asian city-states are small in area, heavily urbanized and densely populated. Because of the scarcity of land, the majority of land in both cities is publicly owned and distributed to developers via long-term leases. In this way, ground rent provides a sizeable portion of public revenue, and taxes, on both personal and corporate incomes, are relatively low. Also, many people live in public housing in both cities (86% of Singapore's population, and roughly half of Hong Kong's). This keeps the cost of housing low, which tends to dampen costs for employers, helping to keep businesses competitive. Hong Kong has now been returned to the jurisdiction of China, but its land-tenure policies have not changed and it remains prosperous.

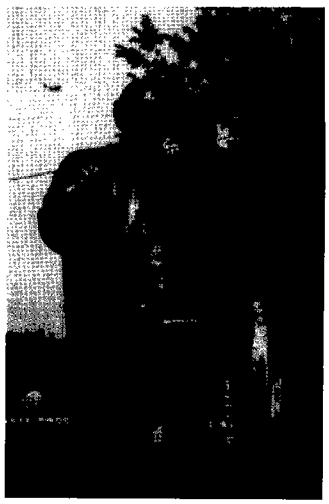
Norway — Revenues from Norway's sizable oil exports have been collected and administered by the national government. Some of the oil royalites have been invested in education and public works, but more has been invested in a national fund, whose current value (2005) is roughly three-fourths of the country's GDP. Norway boasts the world's highest standard of living.

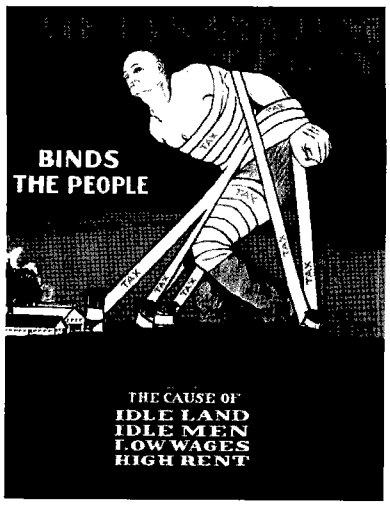
The Former Soviet States — As the former Soviet states approach a newborn market economy, its people do not forget that all lands and natural resources have been the property of the state. There has been a popular movement to recognize common property in land along with private ownership of capital. Much is uncertain about Russia's future, but the understanding that land is common property is not lost on Russian citizens. In Estonia, American land assessors provided the means for an effective land value taxation system to be administered, and Estonia's new public revenue system has contributed to impressive progress there. On the other hand, Russia has allowed the "oligarchs" to control economic policy. Ignoring the rent-as-revenue policy, Russia embarked on a disastrous sell-off of natural resources. The disposition of land ownership is vital to the shape of the emerging post-Soviet economy.

Canada — Various cities in western Canada tax land values at a higher rate than improvements. In British Columbia, 54 of the 104 municipalities exempt improvements 50%; 13 exempt them more than 50%. In New Westminster, 86% of the householders own their own property and land speculation has disappeared. Alberta requires its 7 cities to exempt improvements 40% from taxation. The province taxes land values to some extent, including a land-transfer tax called an "unearned increment tax". The province obtains considerable revenues from oil leases, rentals and royalties (a form of land rent,

which has made possible a "Heritage Fund.") In Saskatchewan all but one of the cities and towns exempt improvement values 40%; Regina 70%. In rural municipalities land value taxation is the primary source of revenue. In Manitoba cities and towns exempt improvements one-third.

United States — The general property tax and the real property tax, insofar as they fall on land values, take for local or state purposes part of the ground rent in the US. In many cities the cost of streets, water mains, lights, etc., is charged to adjoining properties through special assessments. Government collection of royalties on mineral land, oil fields, etc., as well as public lands, recoup some ground rent. Even though the property tax is seen as merely one of many "broad-based" taxes, various levels of government in the US do succeed in capturing some ground rent for public revenue.





At the turn of the 20th century, the "Single Tax" movement was one of the most vital and influential forces of the progressive era. Single tax Mayors and Legislators were elected in a number of states, most notably Mayor Tom L. Johnson of Cleveland. A statue of Johnson in Cleveland today shows him holding the book that inspired his political career: Progress and Poverty. *The Single Tax poster at right was used as an advertisement for* The Public, *a Chicago Georgist newspaper published by Louis F. Post, the eminent author and advocate who served as Assistant Secretary of Labor in the Wilson Administration.*

Two-Rate Property Tax Reform — Nineteen cities in Pennsylvania now apply what is termed the "graded tax plan" whereby land is taxed at a higher rate than improvements. This was an important factor in Pittsburgh's "Renaissance II" in the 1980s. Unfortunately, however, after a reassessment in 2003 inaccurately penalized many small homeowners, Pittsburgh abandoned the two-rate tax. Nevertheless, other Pennsylvania cities, most notably the capital city of Harrisburg, have undertaken the two-rate shift with great success. Efforts are active on other states, notably New York, New Jersey, Maryland and Oregon, to establish this highly effective local tax reform.

California — In 1909 the California legislature required new irrigation districts (and gave the option to established ones) to tax land values only, exempting improvements, crops, etc. Today over 100 districts, serving four million acres of the best farmland in the state and raising about 75% of its crops, follow this system. Speculation was eliminated, and California's pre-eminent role in US agriculture began during that period.

Alaska — The state owns much of the oil land around Prudhoe Bay, and collects a 12% royalty. This has resulted in abundant revenues beyond public expenses, and has made possible a per capita dividend and a cancellation of the income tax.

Fairhope, Alabama — This is a colony operated by the Fairhope Single Tax Corporation which owns much of the land in Fairhope and leases it to its residents. With the economic rent it collected, the corporation paid property taxes levied by the state, county and city, and used the remainder is used for public improvements. Fairhope far outstripped its neighboring towns in growth. Unfortunately, internal political pressure has led the Corporation to discontinue this effective rent-collection policy.

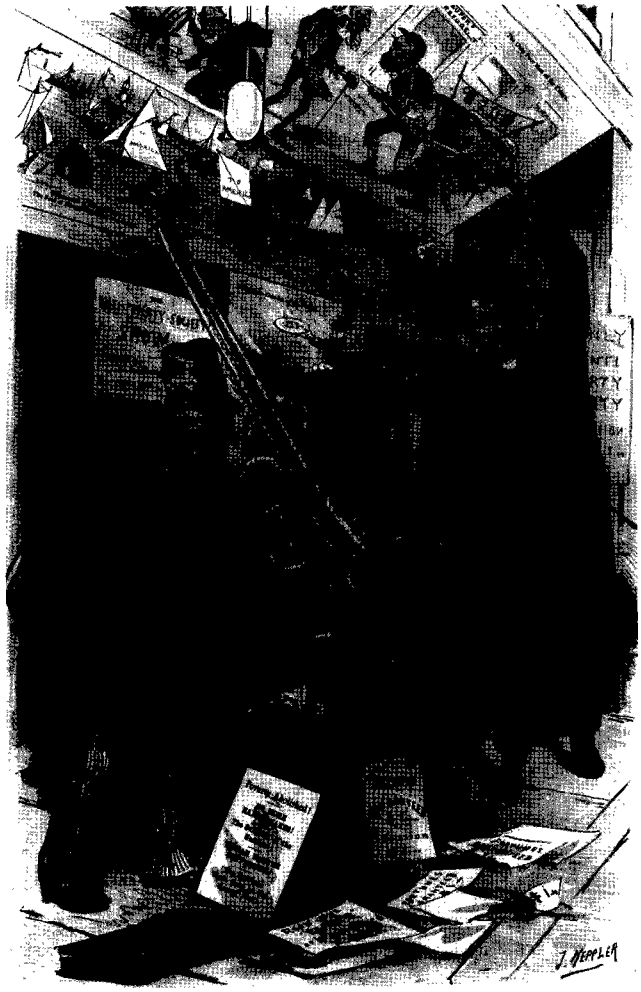
The Three Ardens, Delaware — In Arden, Ardentown, and Ardencroft, the land is leased to its users, and no taxes are collected on improvements. Local taxes are paid out of Arden's land rent fund, and the balance of the rent is used for public improvements. These towns are well-known as beautiful residential communities.

V. Some Typical Questions

Should 100 percent of the rent be collected? Henry George suggested 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.) 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. There are those who say rent would exceed the needs of government. If so, the surplus could be used to wipe out the public debt and the balance distributed as a dividend to all citizens. In any case, even if the rent fund were not sufficient to cover the cost of all public services, if it is the most appropriate source of public funding it should be fully exhausted before any other taxes are resorted to.

How would rent be apportioned? With only one tax, how would it be divided 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 US Constitution.



Father Edward McGlynn, a staunch supporter of Henry George's candidacy for Mayor of New York in 1886, ran afoul of the Catholic heirarchy for his outspoken views on land reform. Summoned to the Holy See to answer charges of heresy, McGlynn refused to go — and was excommunicated. Years later, he wrote a doctrinal statement articulating Henry George's remedy; the Church found nothing heretical in it, and McGlynn was reinstated. Here, Puck *pokes fun at George and McGlynn and their enormously popular New York meetings of the "Anti-Poverty Society".*

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.

There has been increasing debate in recent years over the disposition of transboundary resources. Debate is going on over nations' rights to claim minerals on

the ocean floor. The control of rivers that flow through the territories of many nations is a deeply sensitive issue. The advent of global atmospheric pollution has forced people to see the earth's atmosphere as a resource that is shared by all. Extending the concept of the public collection of land rent to the international sphere can provide a peaceful and progressive way of resolving intensifying conflicts over resource access and use. Treaties concerning common property in Antarctica, outer space, and the world's oceans have taken the first halting steps in this direction.

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? In much the same way as it is done today by real estate appraisers *(See page 42)*. The value of land is customarily 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.

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? 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.

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

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

Why single out landowners for taxation? Are there not other unearned incomes (such as a work of art which increases in value)? 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. And its ownership does not deprive any one of the means of life — or even of the means of creating a new work of art.

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? Even at present, if a landowner does not pay taxes, his or her land is confiscated by the government without com-pensation. 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.



This is the illustration inside the original "Henry George Cigar" box. It became a popular brand during the days of George's fame. His masterwork is shown on the right; on the left is a rooster, the symbol of George's Mayoral campaign.

VI. Land Value Tax and the Urban Dilemma

American cities are in dire financial trouble; in fact, they are taxing themselves out of existence. Their tax bases are shrinking, their obligations are increasing, and every time they raise taxes, they alienate business owners or individuals, many of whom stop producing (and stop paying taxes altogether). Many of the political leaders of those cities believe they are approaching the point where, if they raise tax rates, so many taxpayers will leave that the cities will actually receive less revenue.

Every city has, within its borders, sufficient values to finance its municipal operations — without driving away businesses and well-to-do citizens. Cities need only collect the rent that is currently going into the hands of land speculators.

The value of urban land is a precise measure of the success of local government in providing the services that attract people and business to that city. Taxes on sales and on wages indirectly lower the rents on urban land — by making businesses flee to lower-tax areas. By requiring urban landowners to pay the full rental value of the land they hold, cities can eliminate land speculation. Getting rid of land speculation would increase employment and production while simultaneously increasing the tax base. No other revenue source has this effect.

When the rental value of land is the tax base, revenue is based on the value of opportunities and services rendered to each site. Because it makes each parcel of land profitable only when put to productive use, the land tax delivers a compelling incentive for the redevelopment of cities.

Many cities have sought to resolve their urban tax dilemma by implementing various kinds of "enterprise zones" — attempting to bring development into depressed areas by temporarily abating some of the taxes on business within those areas. The proposals recognize the burdensome nature of taxation in cities today, but do little to solve our urban problems. If an enterprise zone plan succeeds, the main beneficiaries are the collectors of vastly appreciated land values within the zones. Because land values are not sufficiently taxed, enterprise zones tend to become public subsidies for real estate speculators — and create few new jobs. In addition, enterprise zones have seldom stimulated any significant new construction outside of the specific tax-abated areas. Cities that have utilized a higher tax on land values, on the other hand, have experienced city-wide surges in building.

Readers of Henry George's "Story of the Savannah" will note George's observation that cities are, by their very nature, enterprise zones — and only our backwards taxation policies rob them of their potential.

VII. Land Rent and the Environment

Today there is great concern over the environment — pollution of land, air and water, industrial wastes, over-development, destruction of nature. With the advent of global environmental problems, environmentalism is no longer a local concern. "NIMBY" (not in my back yard) is no longer possible in many cases. There is widespread fear that the earth couldn't stand the strain, if the developing nations were to create a comparable level of pollution, per capita, to that of the Northen industrial nations.



Much environmental devastation is caused by our system of land tenure. As a community grows, large areas are acquired for speculation. This results in "leap-frog" development, with people moving further out to find affordable land. Thus all the facilities needed for a growing population are stretched out and made more expensive — transportation, utilities, water supply, garbage disposal, markets and other requirements.

If this condition were corrected, people and industries could move out from the centers of population at a more normal pace, making unnecessary the waste and expense, and a premature invasion of nature. The transportation sector now accounts for about 70% of the oil use in the United States. Tremendous amounts of energy conservation that would result from "infill development", reversing the march of suburban sprawl.

Land value taxation would make this condition possible, as people could then acquire sites closer to the centers more cheaply. Furthermore, people could enjoy both the advantages of urban culture as well as proximity to nature, instead of, as now, either being crowded in the city or settled so far away that urban amenities are not conveniently available.

The environmental problem is exacerbated where land monopoly is at its worst. In Brazil, the destruction of the rain forest is deplored. People crowded in urban slums go to farm these areas, not well suited for agriculture, because prime agricultural land is owned by a few *latifundistas.* An application of land value taxation would improve this situation. Better land would become available without having to resort to the rain forest.

We also find that in African countries whole communities of people are forced onto poor land not suitable for habitation by the dominant ruling cliques. The plight of the disinherited people is often attributed to overpopulation or overuse of land, but the real cause is land monopoly.

Often, measures advanced by environmentalists to improve the situation would require much regulation and restriction of individual liberty, along with a degree of monitoring that would become increasingly difficult to attain. Under land value taxation, and relief from other taxes, good environmental standards would be easier to attain. A greater sense of community and voluntary observance could be relied on, instead of increasing regulations imposed by government.

People are becoming deeply concerned about the consequences of reliance upon fossil fuels, and hope to shift to renewable, less-polluting energy sources. Land value taxation would provide a significant incentive in this direction. At the current state of technology, resources such as solar power are not yet cost-competitive with fossil fuels. However, the energy industries receive various indirect subsidies, and the techniques for utilizing coal and oil have been refined for over a hundred years. A major cause of this has been the capacity to own the potential energy resources themselves, in the ground. It is not possible to own the sun! Profits from oil and coal come largely from land, whereas profits from various forms of solar energy come almost exclusively from capital. A tax system that collected ground rent, and removed the tax burden from labor and capital, would put solar energy on a more equal footing with entrenched — but environmentally destructive — fossil fuels.

A public revenue system which captures resource rents and does not penalize capital equipment would provide incentives for the development of "micropower" — equpiment which would allow individual households to utilize the most appropriate renewable energy sources in their particular location.

Environmentalists need to learn the remedy of the collection of land rent for public revenue as a way to improve the environment.

Appendix I

Some Facts on World Population

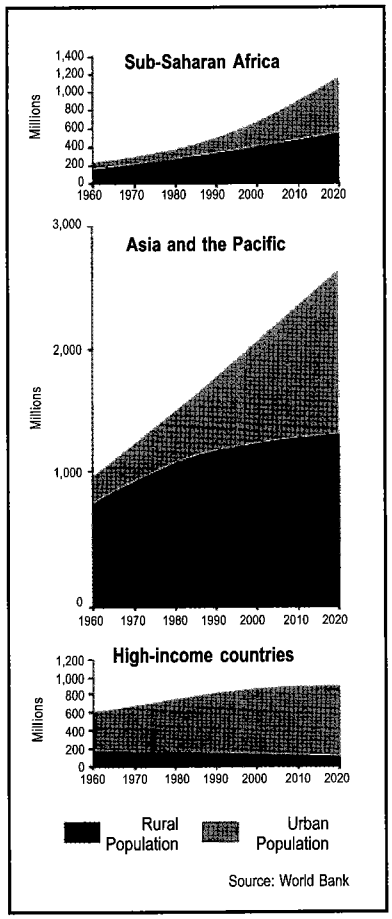
The world's population today is almost 6.4 billion people. The FAO (United Nations Food & Agriculture Organization) has estimated that with modern farming methods, the earth could grow enough food to feed 33 billion people. However, the UN estimates a plateau population of between 9 and 11 billion by 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	9.6
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

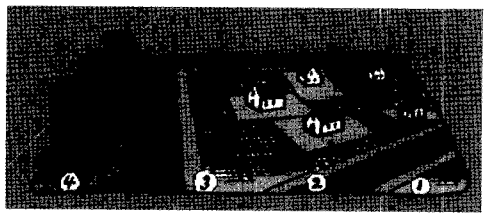
**A hectare is about 2.5 acres.

Source: CIA World Factbook, 2005

Appendix II

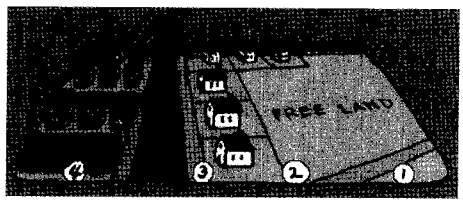
A Closer Look at the Law of Rent

Adding a few specific factors can help us to understand how land speculation works in real life. 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 more capital is used there). Furthermore, on the better grades of land, more workers can be employed on each "plot" (unit of area). But the cost of public services (infrastructure) is greater in proportion to the amount of production and the number of workers.



Let's say that in this model there are five plots of each grade of land, and that one of each four has been held out of use.

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

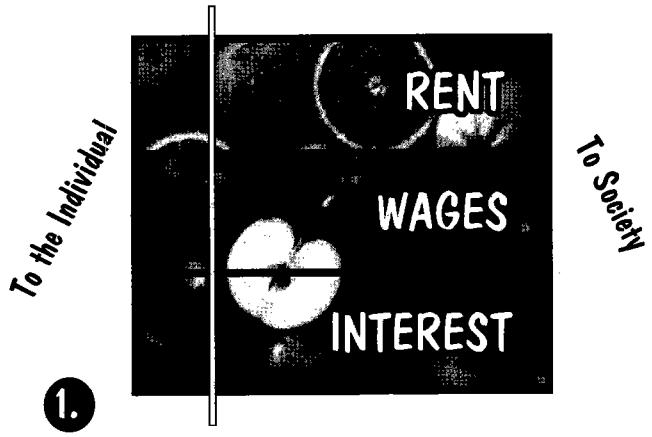


Now let's see what happens if we employ the same number of workers, under the same conditions, but without land speculation:

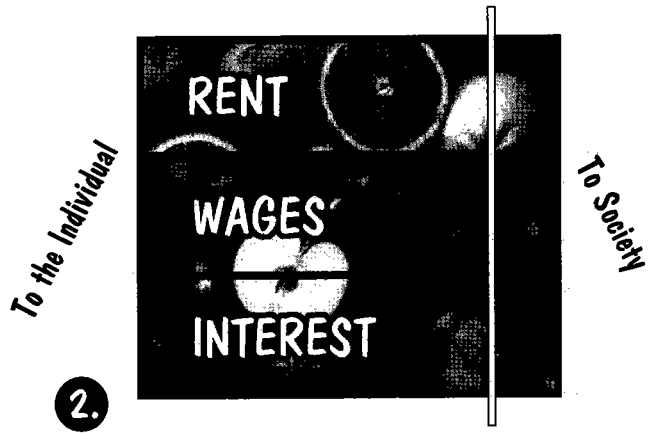
4 plots of each grade of land	5 units per worker/day; 50 workers per plot	4 units per worker/day; 40 workers per plot	3 units per worker/day; 30 workers per plot	2 units per worker/day; 20 workers per plot	1 unit per worker/day; 10 workers per plot	
plot 1	50 x 5	40 x 4	30 x 3	free	free	
plot 2	50 x 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

Appendix III

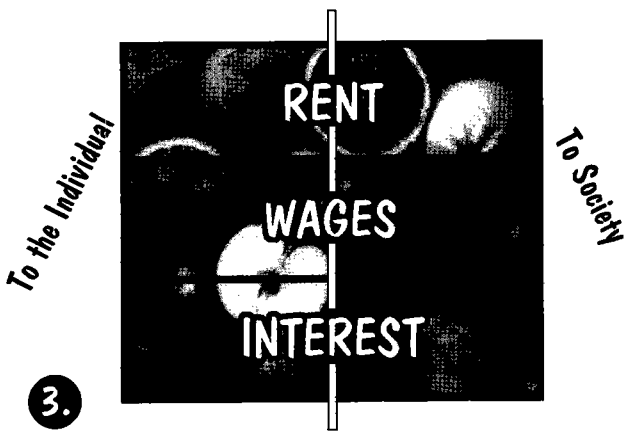
How Do We Divide the Fruits of Labor?



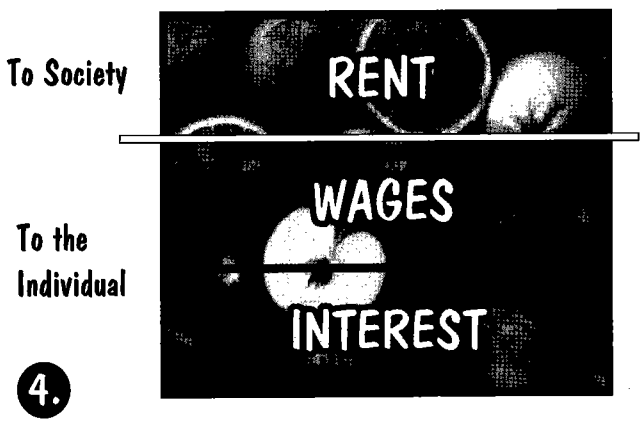
"Left-wing" proposals call for society to achieve ***equity*** by redistributing most of the wealth. No distinction is made between the sources of income (land, labor or capital), and individuals control only a small portion of the wealth. In most cases this entails a large measure of social control,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



"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.



"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 ***equity*** always appear to be at odds.

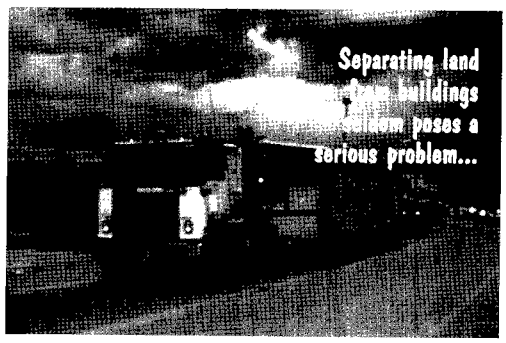


The Georgist proposal is different from all these ideologies in that it makes a distinction between the unearned income of land (rent) and the earned incomes of labor and capital (wages and interest). Rent to society, wages and interest to the individuals who earned them.

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.

Land Rent and Selling Price

In a free market, products exchange for a value equal to their cost of reproduction. Assets which cannot be reproduced, but yield an income (like a license to sell alcoholic beverages) are valued through a process called capitalization. Capital, which is a product, and has a value equal to its cost of reproduction, yields income called interest.



Parcels of land with the potential to yield an income fit this category. So, the selling price of a parcel of land is based on a comparison between the potential income from that land and the amount of capital that would be needed to yield a similar income. This process, called "capitalization", is standard in the real estate business.

However, in many cases the income from a parcel of land increases faster than the profits from the ownership of capital. In that case, if the owner of a parcel of land agreed to sell it for a price based on its current income, she would forego the increased profits which would have been retained by not selling.

Although land is usually offered for sale at an advertised price, it is generally sold to the highest bidder. It is very rarely sold for a price based on its potential to yield an income in the present. The highest bidder is the person or entity with the assets, and the greatest expectation in regard to the potential profits of the site in the future.

There is no way to predict with certainty what the potential profits of a site will be in the future, and therefore no way to calculate from any existing facts, the most anyone will pay for a parcel of land in the present.

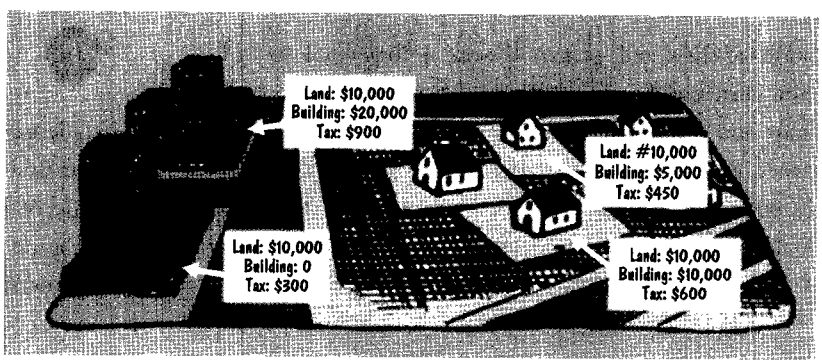
When the selling price of land in general is bid up so high that the owners of unused land cannot resist the temptation not to sell, then businesses find it more profitable to down-size, rather than expand their productions. As the unemployed workers buy fewer products, the reduced demand reverberates throughout the economy and a recession is under way.

Land Value Taxation and Land Prices

If the entire rent of land were taken in taxation, there would be no rental income, nothing to capitalize, and no selling price. Land that yielded no income would not be worth buying. It would still be worth owning for the opportunity it provides to producers, who would still be willing to pay for its use. Therefore, a 100% tax on land rent would destroy the selling price of land; it would also destroy any profit that could be had from land speculation. But land would still have a rental value, as long as people were willing to pay for its use.

Henry George advocated collecting something less than 100% of the rent of land. He recommended that a small percentage, say 5%, should be left to the landowner, which would in turn be capitalized into a selling price (albeit a much smaller one). The advantage of this would be to ensure that free-market forces set the value of land, and to keep government out of the business of making land-distribution decisions.

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!

Appendix V

What Happens When We DON'T Collect the Rent?

Henry George's thesis is that the public collection of the rent of land leads to vigorous, sustainable prosperity — all the benefits of "association in equality". We can find evidence for its validity in the negative as well as the positive. What about those communities that fail to collect the rent of land, leaving it in private hands? Do they become worse off?

We have noted with pride the good effects achieved by many Pennsylvania cities by increasing property tax rates on land and lowering them on buildings *(see page 34)*. That was the good news — the bad news, though, is that for many years the political trend in the United States has been great antipathy toward the property tax, and many regional "tax revolts" have aimed at getting it reduced. The most famous of these was California's Proposition 13, which was enacted by referendum in 1978. Tax rates were capped at 1% of property assessments as of 1978, until properties were sold. The result was a huge increase in California's land prices, and a decline in every other index of economic health.

A 1998 study by Gaffney and Noyes* found a consistent correlation between greater reliance on property taxes (as opposed to sales and/or income taxes) and higher income levels. The property tax was once the principal source of money to fund state and local governments. It provided some 80% of all state-local revenue until the early 1920s, but by the start of the 1980s it had dwindled to only about 30%. Some states shifted later, or less, than others, however. New Hampshire actually never made the shift; it still relies on the property tax for almost two-thirds of its state and local revenue. New Hampshire is the only state in the Union where more than half of all government revenue comes from the property tax — and its economy has been growing twice as fast as its neighbors, Maine and Vermont.

The table below shows the five highest and five lowest states in terms of the portion of each taxpayer's state/local taxes made up by the property tax:

The states with higher incomes have higher taxes overall, but the important fact here is the ratio: higher-income states collect a higher proportion of state and local tax revenue from property taxes.

Gaffney and Noyes conclude their 1998 paper by saying, "There is a correlation between the relatively heavy use of property taxes, as a part of the state/local tax mix, and high per capita incomes. This invites one final question: How much larger would these differences be, and how much better the results, if one end of the fiscal spectrum were socially-created land rents alone, clearly distinguished from the other end — the labor and industry of individuals?"

Rent in Developing Nations

The world's industrial nations do manage to capture some of their aggregate rent through various means, such as "capital gains" taxes, estate taxes or progressive income taxes (although these have been considerably eroded in the United States). Developed nations also use governmental resources to apply macroeconomic "fixes" to mitigate the disastrous swings of the boom/bust cycle.

To see the results of not collecting ***any*** land rent for public revenue, we need to look at the Third World. Many Less Developed Countries (LDCs) bear heavy foreign debt burdens, and are drawn to compete for foreign investment. A

States Ranked by Property Tax Per Capita ($)

TOP FIVE	Property Tax	All Tax	Ratio	PI per cap.*	PI Rank	BOTTOM FIVE	Property Tax	All Tax	Ratio	PI per cap.*	PI Rank
New Hampshire	1344	2098	.64	21.9	8	*Louisiana*	277	1654	.17	15.9	45
New Jersey	1268	2926	.43	26.1	2	*Arkansas*	261	1518	.17	15.6	46
Connecticut	1198	3061	.39	27.2	1	*Oklahoma*	243	1635	.15	16.4	42
New York	1178	3534	.33	24.1	3	*New Mexico*	217	1788	.12	15.5	49
Alaska	1069	3835	.28	24.3	7	*Alabama*	174	1435	.12	16.5	41
MEAN	1211	3091	.41	24.3	4.2	MEAN	234	1606	.15	16.0	44.6

*Personal Income per capita, in $000s

*published in *The Losses of Nations*. See page 47.

vicious cycle ensues, which erodes their tax base. In order to "stay in the game" (and possibly secure debt relief), these nations must present a more attractive tax- and regulatory climate than their competitors, who are in similar straits. The result is a starvation of public services such as education, roads, communications and medical care: all the things a community needs for economic development.



Watching gas flares in the Niger Delta

The "Resource Curse"

Some LDCs have received windfalls in the form of the discovery of valuable mineral resources, particularly oil. Would not the rents from these resources, which accrue to national governments, allow them to invest in their own development and climb out of poverty? Yet, sadly, in many nations this has not happened. Instead, resource royalties have been squandered in un-economic public works, cronyism, and military spending. This phenomenon has happened often enough to have been given a name: economists refer to the related pathological syndromes of the "Resource Curse" and the "Dutch Disease". In the former, windfall profits from easily attainable natural resources tempt corrupt politicians to simply spend on consumption; industrial decline follows. The Dutch Disease is named after the problem faced by the Netherlands after its discovery of natural gas in the 1970s. A big increase in gas exports led to a rising value of Dutch currency. This led to a decline in other exports. Then, more capital resources went into the more-profitable gas industry, which further heightened the decline in other industries. This process has been seen in other petroleum exporting countries such as Venezuela, Mexico and Nigeria.

Is there a remedy for the Resource Curse? The experience of Norway shows that there can be. Norway is a large exporter of oil, and currently enjoys the highest per-capita standard of living in the world. Wages in other industries were kept relatively high by the use of a centralized bargaining system, rather than leaving workers to bargain with each individual firm. Oil revenues were invested in public education, and were used for macroeconomic stimulus during downturns. Also, oil revenues were released into the economy sparingly, so as not to encourage inflation. Most of the revenues were invested in a national fund, whose worth is currently nearly 75% of Norway's gross domestic product.

It is interesting to note that in recent years the existence of this large fund has tempted Norwegian politicians to release the funds into the economy more rapidly than had previously been thought prudent. The result has been increased inflation and economic volatility. The Norwegians had managed to avoid the "Resource Curse" in the special case of oil, but had not been able to stop the underlying boom/bust cycle. Henry George's analysis shows why: the injection of oil revenues into the economy must serve, in time, to increase land values. If those rents are not collected for public revenue, the boom/bust cycle is the natural result.

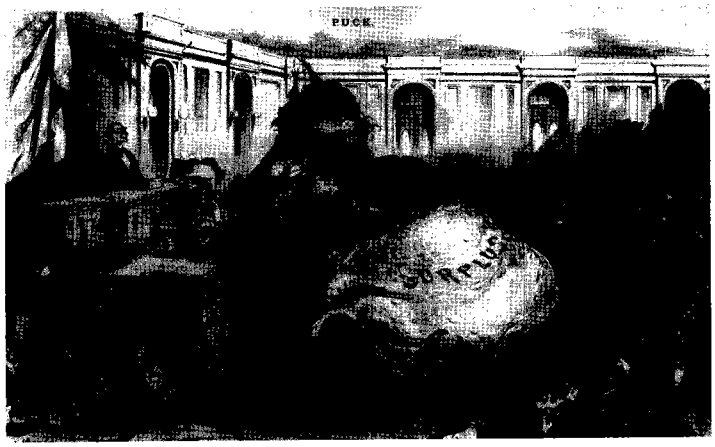
Indeed, the "Resource Curse" does not apply just to oil, or to extractable resources, or to any particular kind of resource, but to all land. This is implied (though not followed up on) in the literature about this phenomenon. Economist Douglas Yates, for example, describes the phenomenon of the "*rentier* state", in which the Resource Curse "embodies a break in the work-reward causation... rewards of income and wealth for the rentier do not come as the result of work but rather are the result of chance or situation." (An over-reliance on unearned rental income, as George explains, is the basic force that pushes an economy into recession.) Similarly, Norwegian economist Erling Røed Larsen observes that "dealing with the Dutch Disease involves mostly macroeconomic policy instruments, [while] avoiding the Resource Curse may include more fundamental elements of society.... Avoiding the curse, the literature says, reduces to preventing rent seeking." Henry George provided that recommendation as early as 1879.

Appendix VI

Taxes: What Are They Good For?

Although people usually do not like taxes, and governments can become so corrupt and misdirected that people revolt against paying taxes at all, most recognize the basic need for some public services, funded by some sort of taxation.

The free market is good at allocating goods and services that producers compete with each other to supply. Things are not allocated well when monopoly disrupts the process. But there are some things, real benefits to the entire community, which cannot be had without monopoly; they are monopolies by their very nature. Consider roads, for example. A highway is generally built along the most direct route available — what incentive is there to build another road to compete with it? If the highway were privately owned, the owner could charge "whatever the traffic would bear" for its use. Rather than award individuals such a huge privilege, most communities build roads collectively, financing them through taxation.



Henry George believed that businesses that are monopolies by nature should be run by the government, not left in private hands. It was George's conviction that the primary function of government is to secure the rights of its citizens — including labor's right to the wealth it produces.

The Canons of Taxation

The classical economists, with their powerful common sense, outlined four criteria of a good tax. Their skill is evident in the simplicity and comprehensiveness of the following provisions:

1) Taxation should bear as lightly as possible on production. The very word "tax" suggests a burdensome load. Taxation is an allocation of wealth, which is produced by labor, to the needs of the community; nobody benefits if taxation inhibits production!

2) It should be easy and cheap to collect, and fall directly on the ultimate payer. If great resources must be devoted to the collection of taxes, they are simply wasted! Indirect taxes (such as sales taxes, and tariffs) are imposed on sellers and importers, yet ultimately paid by consumers. Not only are such taxes unwieldy and cumbersome; they also tend to be regressive — weighing heavier on those with lower incomes.

3) It should be certain. The more complex the rules of taxation are, they can be subverted and evaded. As the tax code becomes a hieroglyphic that can be understood only by specialists, only those who can afford to pay the specialists can take advantage of its loopholes!

Also, the production of wealth fluctuates from year to year, so if production is taxed, the amount of revenue cannot be predicted with certainty. Revenue shortfalls have to be met by means of public borrowing.

4) It should bear equally, so as to give no individual an advantage. We have seen how regressive sales taxes fail in this regard. The conventional standard of tax fairness is "ability to pay." People with higher incomes are able to pay a greater part of the tax burden. The progressive income tax, for example, is based on ability to pay; in fact taxes are called "progressive" if they bear more heavily on those with higher incomes. But is the "ability to pay" principle really fair? No — because it makes no distinction between earned and unearned income. If individuals are more wealthy because they are efficient and honest producers, then taxing them according to their ability to pay burdens production, violating rule number one! A truly equitable public revenue system will not confiscate the legitimately produced wealth of

some while allowing others to collect unearned incomes. The alternative principle of "benefits received" achieves fairness by levying taxes according to the value of the advantages people have been given.

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.

Can a tax on land values be shifted?

Taxes on commodities are usually passed on to the consumer in higher prices. What is to stop landowners from doing the same thing? That is, can a landowner increase the rent charged to tenants, to pay the land value tax and still collect the same net rent as before?

Remember: 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 value does not affect either its cost of production (it is not produced) or its supply (which is fixed). Thus its price is not increased (for it is already 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.



Political Economy has been called the dismal science and, as currently taught, it is hopeless and despairing.... Freed, as I have tried to free her — in her own proper symmetry, Political Economy is radiant with hope. — Progress and Poverty, *Conclusion*

Suggestions for Further Reading

(all books listed here are available from the Robert Schalkenbach Foundation: www.schalkenbach.org)

Other Books by Henry George:

Social Problems — A series of prophetic essays on the social questions of George's day, and ours.

Protection or Free Trade — Which best serves the interests of working people, and what is the true cause of falling wages?

The Science of Politcal Economy — George's last, and some say his greatest book: a systematic exploration of the science of economics.

The Land Question — Includes the Encyclical *Rerum Novarum* by Pope Leo XIII, and George's open letter in response.

Further Reading on Topics Raised in this Course:

Critics of Henry George: A Centenary Appraisal of Their Strictures on Progress and Poverty, Robert V. Andelson, Editor, 2003, Blackwell Publishing — George's most prominent critics take their scholarly best shots. Updated, two-volume second edition.

Henry George, by Charles Albro Barker, 1991,1955, Robert Schalkenbach Foundation (Original publisher: Oxford University Press) — The definitive biography of George.

Costing The Earth, Ronald Banks, Editor, 1989, Shepheard-Walwyn — A series of documented studies on the real extent of land monopoly in today's economy.

The Corruption of Economics, by Mason Gaffney, Fred Harrison & Kris Feder 1994, Shepheard-Walwyn — Ground-breaking study showing how the initial development of neo-classical economics was motivated by an attempt to deflect support from George's proposals.

The Losses of Nations: Deadweight Politics versus Public Rent Dividends, Fred Harrison, Editor, Othila Press, 1998 — Research and analysis on the folly of failing to collect the rent of land for public revenue.

Land Value Taxation Around the World, edited by Robert V. Andelson, third edition, 2000, Schalkenbach. The definitive, worlde-wide survey of various modes of public collection of resource rents, and their effects.

Other Voices on the Land Question

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

John Locke (1632 - 1704): God gave the world in common to all mankind. Whenever, in any country, the proprietor ceases to be the improver, political economy has nothing to say in defense of landed property. When the "sacredness" of property is talked of, it should be remembered that any such sacredness does not belong in the same degree to landed property.

Thomas Jefferson (1743 - 1826): The earth is given as a common stock for men to labor and live on.

Karl Marx (1818 - 1883): Assuming the capitalist mode of production, then the capitalist is not only a necessary functionary but the dominating functionary in production. The landowner on the other hand is superfluous in this mode of production. If landed property became people's property the whole basis of capitalist production would go.

Adam Smith (1723 - 1790): Ground rents are a species of revenue which the owner, in many cases, enjoys without any care or attention of his own. Ground rents are, therefore, perhaps a species of revenue which can best bear to have a peculiar tax imposed upon them.

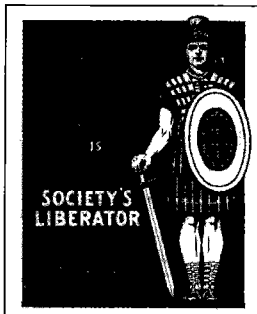
Tom Paine (1737 - 1809): Men did not make the earth.... It is the value of the improvement only, and not the earth itself, that is individual property.... Every proprietor owes to the community a ground rent for the land which he holds.

Abraham Lincoln (1809 - 1865): The land, the earth God gave 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....

Leo Tolstoy (1828 - 1910): Solving the land question means the solving of all social questions... possession of land by people who do not use it is immoral — just like the possession of slaves.

Sun Yat-Sen (1866 - 1925) The land tax as the only means of supporting the government is an infinitely just, reasonable, and equitably distributed tax, and on it we will found our new system. The centuries of heavy and irregular taxation for the benefit of the Manchus have shown China the injustice of any other system of taxation.

Mikhail Gorbachev (b. 1931): Natural rent must be a part of public revenue — what they don't earn but rather what they simply receive from the nation, from nature.



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