



## **Progress and Poverty Study Guide**

By Dr. Mason Gaffney and Kris Feder

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# Progress and Poverty Study Guide 2000

## Study Guide Q&A: FYS Spring 2000

Prepared by Prof. Kris Feder, Bard College

### Progress and Poverty by Henry George

The notes and questions in this study guide are based on lectures developed by economist Mason Gaffney of the University of California, Riverside. Gaffney writes:

You should be able to follow George's argument without a lot of help. This book is considered a masterwork of exposition because it hews to an outline that defines an issue, sticks with it, and builds a coherent, articulated thesis. It makes a good model to help you organize your own writing, from exams to reports and dissertations. That is true whether or not you agree with George's thesis. The point is, you can follow it. If you disagree, you can say exactly why, and where you depart from the carefully constructed thesis.

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#### Introductory: "The Problem"

1. From what evidence does George infer there is a common cause for unemployment in various countries? 6

It is found where tariffs are high, or low; where governments are autocratic, or democratic; where armies are strong, or weak; where money is paper, or gold. Those differences do not seem to matter. It is found in all advanced nations.

2. Why does George associate said common cause with material progress? 6-7

Depressions, which accentuate the problem, "are but intensifications of phenomena which always accompany material progress."

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#### Book I: "Wages and Capital"

##### Chapter 1: "The Current Doctrine of Wages-Its Insufficiency"

1. What is the central question George addresses? 17

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

Is George right about the tendency of wage levels? Has the question been resolved? What social questions are more important?

In good times, the tendency is strong for optimists and defenders of the status quo simply to deny the premise, and read no further. However, since 1975 or so, real wage rates in the USA have been falling in absolute terms. For several years before that, they were falling behind several nations we used to consider backward or oppressive, like Germany and Japan. Today we are enjoying a technology-driven economic boom that has raised property values and lowered unemployment. Whether that translates into a higher wage level is unclear. Whether a future crash will reverse much of the gain remains to be seen.

2. What is the "Wages-fund Theory" (WFT) answer, as seen by George? 17

Wages are fixed by the amount of capital, the "wages fund," devoted to employing labor, per head (i.e. divided by the number of workers employed.)

He goes on to say that the theory includes this element: that any increase of capital will be followed by an increase of heads, nullifying its effect. That, of course, makes the WFT just a variant of the Malthusian theory, which is how George treats it, and why he is so hard on it. No doubt some people were using it that way at that time. If we remove the Malthusian element, we might find some elements of truth in the pure WFT. (See Knut Wicksell on capital theory.) Meantime, George has some telling points to make.

3. What facts does George cite to refute WFT?

a. Interregional comparisons (some say "cross-sectional analysis") 19-20

Wage and interest rates in fact vary together, not inversely as implied by the WFT. He cites the western USA, where wage and interest rates are both higher than in the east, and Europe. He attributes this to greater abundance of land per head in frontier areas. He faults WFT champions for thinking in terms of just two factors, when there are three.

b. Intertemporal comparisons (some say "time-series analysis") 21-22

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Wage and interest rates are both lower in slumps than in boom times. He allows for the interesting exception that interest rates are high during "panics," but he attributes this to a high rate of insurance against risk, rather than to interest per se.

4. Does the complexity and advanced technology of modern economies free them from dependence on land or nature? 26-28

Absolutely not. Land is "limitational," meaning some of it is needed for all production, for all human life and activity of any kind. 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 that vastly raise the land coefficient of labor. 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 sees city land as our most valuable natural resource.

Radio and TV communications use the radio spectrum, a limited natural resource. 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: Yin and Yang, Good and Evil, East and West, God and the Devil, Friend and Enemy, Them and Us, Ordinate and Abscissa, Female and Male, Black and White, Liberal and Conservative, Left and Right, Believers and Infidels, Republicans and Democrats, Haves and Have-nots, Right and Wrong, Orthodox and Heterodox, etc.

Dualistic thinking limits most economists. Behind the facade of advanced methodology, elaborate models, and the trappings of mathematics, there is an incorrigible simple-mindedness. Their world consists of only two factors, Labor and Capital. George challenges us to stretch our minds and 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 of each factor are determined by common forces, but separately from returns to the other factors.

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## Chapter 2: "The Meaning of the Terms"

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 too often shifty, ways.

1. What are the three factors of production, according to George? 38

Land, Labor, and Capital. This was standard among classical economists. It never occurred to them that anyone could be allowed to define land out of existence, or subsume it under "capital," as too many economists do routinely today.

2. What are their respective incomes called?

They 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. 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 a person owns both, and manages them himself, he gets an income, called "profit," which contains all three elements: rent, interest, and wages-of-management. The job of functional distribution, which George is approaching, 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. Those inputs they do not own they hire as they go, paying them about as much as they add to sales. "Profit" comes from the inputs they do own. Apportioning profit among the owned inputs is called "imputing." Remember that word, and its meaning.

How about profit, then? After imputing 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 its inventories, 100%. In financial terms, it has no equity. It is a "disembodied spirit." Under competitive conditions it will have no profit, either.

Distinct from accounting profit is economic profit, which economists today define pretty much as George did—revenues minus ALL costs, including the implicit costs of resources owned by the producer. In competitive conditions economic profit tends to zero—a basic result in Economics 102. Positive economic profit can persist only under monopoly conditions, that is, when some barrier prevents entry of competitors into a lucrative market. Often the barrier is an artificial, legal one—a license, patent, or tariff enforced by government. Sometimes the barrier is a natural one, but with a legal dimension—as when the producer is granted title to most of all of the known deposits of some natural resource.

"Profit" in the accounting sense 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. Indeed, most real estate is held this way, and pays little or no income tax as a result. (Mortgage interest is deductible as a cost of production in the US tax code. Businesses pay income tax on the amount by which revenues exceed costs.)

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 doable. 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.

### 3. How does George define land? 38

"All the material universe outside man and his products." That includes a lot more than what is colloquially called land. It includes all the forces, forms, and materials provided by nature: soils, topography, city lots and acreage, wild fish and game and their habitat, dump sites, virgin and volunteer timber, the natural environment, the gene pool, the ecology, natural grasses, the climate, water in all its forms, aquifers, reservoir sites, watersheds, beaches, ores and gravels and minerals, the air, air space, take-off and landing slots, routes and rights-of-way, parking spaces, the radio spectrum, sunshine, the power in the atom, harbors, power drops, riverbeds, lakebeds, seabeds, etc. (Cf. M. Gaffney, "Land as a Distinctive Factor of Production.")

### 4. How does George define "wealth?" 39-41

Note that capital is subsumed under wealth (42, 48). We can overlook his effort to cut consumer capital from other capital. It plays no role in his later reasoning. In fact, we will see that he presently has consumer capital easily convertible into other capital.

#### a. How does George distinguish land from wealth? 42.

He defines wealth as human products, thus excluding land. Since he defines capital as a form of wealth, that distinguishes capital from land.

#### b. What does George say about bonds, stocks, etc.? 39-41

George leans hard on distinguishing material wealth from mere paper claims on wealth. Today we would say he distinguishing 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 totting 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, he warns us that other economists often forget to think about it. They slide back into the careless metaphors and metonymy of private accounting, where paper claims to wealth are wealth to individuals, and misapply them to counting up social wealth. This still happens. An example is when some economists fault the American property tax because the tax base does not including corporate shares, and bonds. Some say it does not tax corporate wealth, therefore. They forget that corporate assets themselves are taxable property. In most cities, in fact, the largest 20 or so property taxpayers are all corporations.

He does not say, but it is true, that some economists fall into the converse fallacy: they count up debts, and view with alarm the growth of debt per se, forgetting that one person's debt is another's credit. That is not to say the growth of debt is meaningless, but the reasons are subtler.

### 5. How does George define capital? 48

Wealth used to produce more wealth; alternatively, wealth in the course of exchange. As a practical matter, he might as well just say all wealth is capital for, we will see, he finds all the forms are mutually convertible. So just think of wealth and capital as the same; you may overlook the fine distinctions he discusses. They are important in capital theory, but George makes no further use of them.

### 6. How does George define labor? 32

"Human effort devoted to the production of wealth."

George also sees capital as "stored-up labor," and sometimes tends toward dualism himself. Where other dualists (following J.B. Clark and Karl Marx) are prone to fuse capital with land (in distinction to labor), George is inclined to fuse capital with labor, (in distinction to land). In treating capital and labor as partly interchangeable, George in a way anticipates those economists of today who make much of "human capital." However, they focus on the capital embodied in labor, while George points to the labor embodied in capital. With George, labor is always primary and uppermost.

### 7. How does the meaning of "wages" in political economy differ from common usage? 72

Wages include all returns to human effort, not just the pay of hired hands. They also include salaries, commissions, fees, etc. They include most of the "profit" of small businesses (assuming they are labor-intensive).

8. Does increased land value represent an increase in the common wealth? 40

No, it is just redistributive.

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### Chapter 3: "Wages Not Drawn from Capital, But Produced by the Labor"

1. How does George proceed to prove that wages are not drawn from capital? 51-56

Beginning with the simplest case, and tracing first principles through successively more complex cases.

2. What is the metayer system? 52, 53

The tenant farmer gets a share of the produce; the landlord provides the land and capital (tools, seeds), and receives the remainder of the produce.

3. What are wages in kind? 53

Wages paid in the form of a part of the wealth that the labor produces.

4. What is saer-and-daer stock tenancy? 53

Unclear. Evidently a form of cattle ranching involving wages in kind.

5. How does George analyze cases in which the laborer gets his wages even when a disaster forces the employer to take a loss? 56

The employer accepts the risk of the enterprise, and in return for this security the workers accept somewhat lower wages, so that the employer is compensated for risk.

6. How does the use of the term "capital" in two senses lead to the fallacy that industry is limited by capital? 58

Major premise: Capital is necessary to the exertion of productive labor.

Capital is broadly defined to include all food, clothing, shelter, etc.

Deductions: Capital limits industry.  $\text{Wages} = [\text{Capital}/\text{Laborers}]$ .

Capital is narrowly defined as wealth in the hands of employers.

7. Why does the habit of estimated capital in money cause confusion? 62

Because the capitalist typically lays out capital in the form of money to pay wages while the work proceeds, exchanging money for capital in the form of partly finished goods.

8. In what branch of production are "the confusions of thought which arise from the habit of estimating capital in money" least likely to occur? Why? 62-63

In gold mining, because gold is money, so it is clear that the laborer produces his own wages, even when wages are paid in money.

9. If labor is hired to build a ship, does the employer lay out capital in order to pay wages during the many months of labor required to complete the ship? 67

No. Each day, the laborers add value to the partly finished product, increasing the employers capital before a part of that increase is paid out in wages.

10. If an employer does not need capital to pay labor, then why does he need capital? 70

In order to be a merchant or speculator in, or an accumulator of, the products of labor.

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### Chapter 4: "The Maintenance of Laborers Not Drawn from Capital"

1. Why is it absurd to suppose that the maintenance of laborers is drawn from capital? 72

It involves the idea that labor cannot be exerted until the products of labor are saved-thus putting the product before the producer.

2. How does George answer Mill's assertion that laborers are maintained from the produce of past labor, and thus from capital? 71 ff.

Laborers are maintained from the produce of contemporaneous labor. Also, capital is wealth in the hands of the employer; his food in the hands of the worker/consumer.

3. How does labor "virtually" produce the things on which he expends his wages? 76

His purchase sends a market signal that directs the production of replacement supplies of the item he buys.

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## Chapter 5: "The Real Functions of Capital"

1. How does capital increase the power of labor to produce wealth? 80

(1) By enabling labor to apply itself in more effective ways.

(2) By enabling labor to avail itself of the reproductive forces of nature.

(3) By permitting the division of labor, and thus

a. increasing the efficiency of labor, and

b. increasing the efficiency of utilization of land.

2. Does capital supply materials? 80

3. Does capital supply or advance wages, or maintain laborers during the progress of their work? 81

4. Does capital limit industry? What does this phrase mean? 81

5. What, then, does limit industry? 81

6. And what, then, can be limited by capital? 81

7. Does lack of capital limit productivity in Mexico or Tunis? 83

8. What evidence suggests that "the social organism secretes, as it were, the necessary amount of capital just as the human organism in a healthy condition secretes the requisite fat?" 83-87

9. The wages-fund and Malthusian theories imply that wages fall as the number of laborers increases, other things being equal. George suggests that, on the contrary, wages rise as the number of laborers increases, other things being equal.

a. Why should wages rise as population grows? 88

b. What is one reason why other things might not be equal? 88

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## Book II: "Population and Subsistence"

### Chapter 1: "The Malthusian Theory, Its Genesis and Support"

1. To what does George attribute the sustained support for Malthus' theory? 99

It stills the conscience of the rich, and discourages reformers, by attributing poverty and want to unavoidable natural causes. It "parries the demand for reform, and shelters selfishness from question and from conscience by the interposition of an inevitable necessity."

2. How does Ricardo's rent law support Malthus? 97

It presumes that rising population forces recourse to less and less productive lands, lowering wage rates. It contains and reinforces the same grim premise as Malthus, that rising population crowds onto fixed resources and lowers living standards. Do not think that George is repudiating Ricardo's Law of Rent: later he will generalize it, and base much of his analysis on it.

3. How do Darwin's theories support and extend Malthus? 100-02

Darwin wrote that Malthus inspired him, that the struggle for existence is simply the doctrine of Malthus applied to other organisms. McCulloch says the very cause of progress is the struggle for existence engendered by poverty. Darwin gave to Malthus the prestige of Science.

4. How did Alfred Russel Wallace diverge from Darwin?

Wallace published the principle of natural selection simultaneously with Darwin, at the very same meeting in 1857. Darwin may even have cribbed from Wallace, an historical mystery still being unraveled. Wallace rebelled against the reactionary social implications that many, like Huxley, and Herbert Spencer, were drawing from natural selection, and disavowed them.

Wallace, having become an international celebrity, and financially independent, dropped biology and became a land reformer. He and George came up with parallel ideas and proposals at the same time. Wallace did not just repudiate Malthusianism, he sponsored George when George visited England.

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## Chapter 2: "Inferences from Facts"

### 1. Under what conditions do human populations increase fastest? 103

Where human life is occupied with the physical necessities of existence, and "where the perpetuity of the race is threatened by the mortality induced by adverse conditions." George surmises that birthrates will fall with higher incomes, and peace. Later experience and research roughly confirm that, although there are anomalies like the low birthrate of the Great Depression. The postwar baby boom is an apparent anomaly, in purely economic terms, but not in terms of "threats to the perpetuity of the race." Wars always raise the birthrate.

### 2. To what does George attribute poverty in India? 113 ff.

Suppression and ruthless exploitation of the working classes by various conquerors, not least the English.

### 3. Why did Ireland export food during its famines? 125

To pay rent to absentee landlords, resident in England. These landlords had acquired their estates not through purchase, but conquest and appropriation.

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## Chapter 3: "Inferences from Analogy"

### 1. How and why do prey populations respond differently to growth of human population than to growth of animal predator populations? 130

Man controls the reproductive powers of the species on which he feeds. He saves the seed corn; he pastures the bull with the cow, and the rooster with the hen. "No other species can make that statement." Thus, "... the more jay-hawks the fewer chickens, while the more men the more chickens."

### 2. What limits the population of food-importing cities? 132; 142

The physical limit of the globe, because to produce one thing is to produce all the things for which it will exchange.

### 3. How do human and animal populations differ in their response to increased subsistence? 134-35

The only use that animals make of increased subsistence is to multiply. Man's desires expand beyond reproduction: he raises his standard of living. At first these added desires are material, but as man evolves they grow more intellectual, social, public-spirited, and spiritual, requiring fewer resources.

At this point George's idealism swells beyond his evidence, but he may be right. What do you think?

### 4. How does George use the law of conservation of matter and energy? 133

Nature recycles everything; nothing is lost.

What about the "Second Law of Thermodynamics," the law of entropy? George says nothing about that; it was hardly known in his day, and he lived on a frontier with abundant untapped resources. It doesn't hurt to review this notion of resource abundance periodically, especially as we draw down the energy resources stored up by nature over millions of years past. That would not necessarily conflict with George, whose basic message is that we should economize on natural resources more conscientiously.

### 5. What are Malthus' "positive" and "prudential" checks on population? What third check does George identify? 138

Malthus' "positive" checks do not sound very positive. They are vice and misery, with their various subdivisions like the Four Horsemen of the Apocalypse: fire, warfare, disease, starvation. His "prudential" check is abstinence, which he favored, hair-shirt puritan that he was. Modern technology, uncoupling procreation and recreation, has brought prudence within reach of all but the most insouciant.

George's check is rise of the standard of comfort, and development of the intellect.

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## Chapter 4: "Disproof of the Malthusian Theory"

### 1. What does George mean by "Disproof of the Malthusian Theory." 143-47; 149-50; Cf. 230-43.

Nations that increase in population increase in wealth per head. Densely populated countries support more people in idleness, and export capital. They have the greatest surplus to devote to warfare. The denser the population, the more the specialization, or subdivision of labor. He develops this last theme at greater length in Book IV, Chapter 2, "The effect of increase of population on the distribution of wealth."

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## Book III: "The Laws of Distribution"

## Chapter 1: "The Inquiry Narrowed to the Laws of Distribution-the Necessary Relation of These Laws."

### 1. What is "distribution"? 154-55

Is it part of modern micro, macro, or something else? (No page reference.)

Distribution is the division of economic values among parties, or, for short, "cutting the pie." George here deals with "functional" distribution of output. That is the division of the product among the functional factors of production: land, labor and capital. Today, the process of determining how much each input adds to output, and how much of the pie should be its portion, is called "imputing." Misimputing, which is all too common, is called "arrogating." Learn and remember the word "arrogating," too. It is one of the deadly sins of economics.

Locke, Quesnay, Smith, Malthus, Ricardo, Mill, etc. al., the pioneers of our discipline, dealt with functional distribution. It was a central concern of classical "political economy." Modern micro and macro neglect distribution. A residual treatment of the tools you need to understand functional distribution is found in the part of micro called "production economics." Some micro texts explain "Euler's Theorem," which helps, once you really understand it. Most economists today downplay the social and distributive implications, however, emphasizing instead the managerial and allocative aspects.

As to macro, early Keynesian macro emphasized functional distribution only as it affected consumption: wages were thought to be more spent on consuming than property incomes are. Keynes of the 1930s took this as an argument for resisting wage cuts. Champions of higher wages have always used this argument, indeed, and still do, but it has boomeranged: today it is used as an argument for raising property income, to increase saving. Most macro theory today pays no attention at all to the division between rent and interest, a glaring weakness in macro that continues to the present. Modern macro rather resembles, in its intellectual structure and reactionary social purpose, the travesty of the wages/fund doctrine that George attacked.

(Some economists classify distribution theory and the like under "meso" economics.)

### 2. "The problem is not production, but distribution." 154

Does this statement summarize George's position?

George wanted to divide the pie differently, but that was partly in order to make the pie bigger-he was concerned with production, not just distribution. He championed a functional policy of distribution: distribute the pie according to the contributions people make to it, thus maximizing incentives to produce wealth, and allocating resources to their best uses. He shows that workers and savers contribute, but landowners per se do not. It is the last point that differentiates George from ordinary champions of free markets-the ones who modestly call themselves "mainstream."

### 3. Profits and interest, 156ff.

#### a. How does George distinguish profits from interest?

Profits are the sum of three parts: interest proper (which is "pure" interest, something like the risk-free prime rate); risk premium; and wages of superintendence. George does not mention that profits as generally used are net of interest paid out, and the rate of return (ROR) on equity is profit divided by equity capital, where equity capital is total assets less debt.

George stresses that "wages of superintendence" are a large part of profits. That is true for small unincorporated businesses, and the writers he is citing are from the era before corporations were as dominant a form as now. Today in corporations, wages of superintendence are deducted as salaries and bonuses (and some illicit boodling) of managers, before figuring profits.

He only mentions in passing that profits include rent. The omission must be imputed to absent-mindedness when writing late at night, because elsewhere it is clear this is his major point. Actually corporate profits today include large rents, and can be steady or rising even when the marginal rate of return on capital is falling.

#### b. How does George criticize earlier writers on this? 159

George criticizes other writers for regressing from their own definitions, and using profit to mean the return to capital. They contract the meaning of "wages" to its narrow colloquial sense, and put wages of superintendence in with profits. The result is to blur the distinction between returns to labor and those to capital.

It would be more characteristically Georgist to fault them for arrogating the returns of land to the credit of management or capital. That is what they do. Managers entrusted with valuable lands love to understate the lands' value, arrogating its productive contribution to themselves, making themselves look good and justifying raising their salaries.

### 4. Why does it matter how we define interest? 158

We are on the job of "assigning causes that fix the general rate of interest." Profit is an amalgam of various elements, including rent. Rent varies inversely with interest. In addition, profits go down when debt rises, even though the returns to capital and land remain the same. Changes in profits, as the term is generally used, therefore do not tell us what is happening to the MROR on capital proper. That is important for policy, because it is the MROR that motivates and stimulates the investing that makes jobs and incomes.

"Profits," as usually measured and defined, may actually rise while MROR falls, and it is rents that rise. Occasionally some smart economist figures this out. Rarely, some constructive economist comes into power and takes appropriate action: Walter Heller is a prime example, with his Investment Tax Credit (ITC). The ITC is a tax preference that is limited to investing to create new capital, thus raising the MROR without raising rents. Keynes, who stressed the importance of raising the MROR, would have approved. The mass of ordinary "mainstream" economists, meantime, mill around ineffectually, clueless and unavailing, silent and apparently in darkness on this vital point.

If Land were convertible into Capital, and vice versa, their returns would rise and fall together. However, they are not mutually convertible: that is why George and the classics defined the elements of economics as they did.

5. What does George mean, "The laws of the distribution of wealth are obviously laws of proportion,..." 160

The shares must add up to 100%, so the whole system must be explained together, not just one part at a time. George was system-minded, and was pushing for a unified theory whose parts all harmonized. In this he was ahead of his times. His contemporaries who developed the unified theory more elegantly and academically were a man he had inspired, Philip Wicksteed, and another man he had challenged, J.B. Clark. Wicksteed and Clark both produced comprehensive marginal productivity theories showing how the total product is "exhausted" when all factors are paid their marginal products.

6. What is the law of rent? 161

"Rent is determined by the margin of cultivation; all lands yielding as rent that part of their produce which exceeds what an equal application of labor and capital could procure from the poorest land in use."

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## Chapter 2: "Rent and the Law of Rent"

1. Is there rent when the landholder and the user are the same? 165-66.

Yes, there is what we now call "implicit," or tacit, rent. Tacit rent is also called "imputed" rent because its quantity has to be imputed. A large share of business profit is imputed rent today. For some businesses it is nearly all of profit. How else would you impute the profit of a parking lot, for example? The operator likes to arrogate it to the credit of his efficiency or productivity. The efforts of managers to do so cause much confusion on this point, and much understatement of true rent.

Logically George should extend this to the imputed rent of land under and around owner-occupied residences. He never addresses this in this book, although he does in later works. Economists today routinely speak of imputed rent on owner-occupied residences. They also, unfortunately, underestimate its amount, and vastly underestimate the share of it that imputes to land, especially in the residences of the rich.

The importance of this question may be seen by noting that credit secured by residential property is considerably more than the national debt today. [See figures in the data sections of the Federal Reserve Bulletin, the Survey of Current Business, the Statistical Abstract, some Almanac, or wherever you can find data on mortgage debt.]

2. How is ground rent related to the price of land? 166

Which is cause and which is effect?

Ground rent is capitalized into land value.  $V = a/i$ , where  $V$  is value,  $a$  is annual ground rent, and  $i$  is the interest rate (expressed as a decimal, not a percentage). When rents are expected to change over time, more complex formulae are required. [See M. Gaffney, "Land as a Distinctive Factor of Production."]

3. How is rent related to the "productiveness" of land? 166

Rent is from the excess productiveness over marginal (rent-free) land. There is no point in paying for what you can get free.

4. What is the law of rent? 168

168 has it; also 161 above.

5. Is George's statement of the rent law adequate? 168

Not on p. 168. Here, he refers only to "the same application" of labor and capital. That does not account for additional rent rising from additional application of labor and capital to better land.

Seizing on this partial statement, captious critics have accused George of understanding only the "extensive" margin, not the "intensive" one. A hasty reader might get that impression, from George's frequent references to the placer gold fields, the frontier, free land, etc. This criticism is not really supportable. On p. 169 we find that when wages fall, labor resorts "... to inferior lands, or to inferior points on the same lands ..." This phraseology, repeated elsewhere, clearly refers to an intensive as well as an extensive margin.

If George were writing a text, 40 years after others had discovered and developed the point, it would be fair to criticize his statement as unclear and incomplete. Judging him as the pioneer that he was, however, he seems to have the elements of a correct statement in place. Remember, he was aiming at (and hit) a wide popular audience who would have had little patience with fine points. Even some economics students today have trouble understanding the intensive margin of production, incredible as that may seem.

#### 6. As to uniformity, how does rent differ from wages and interest? 170

Wages and interest tend to a common level through the interflow and competition of mobile factors. Rent differs from place to place.

#### 7. Is rent purely agricultural, or does urban land also yield rent? 170

Ricardo treated rent as a product of diminishing returns, which he associated with farming. Manufactures he supposed to evince increasing returns, hence to yield no rent. Marx followed that idea, too. George pioneered the application of diminishing returns to cities. One cannot explain urban rent without it.

As George's movement evolved it became primarily focused on taxing city land, whose values were rocketing up with rapid industrialization, commercialization, and urbanization. Some modern writers, like Jeffrey Lustig of CSU Sacramento, persist in labeling George an "agrarian" reformer, because of the common threads in him and Jefferson, Lincoln, and the populists. Vague as the term "agrarian" is, it comes far from describing the versatility of George's thinking, and the reform proposal it led to. It also overlooks George's personal life and background, which were intensely urban.

#### 8. How does George coordinate the laws of distribution? 171

Wages and interest get what is left after rent is taken out. The sum of the shares is 100%, so each law implies the others.

George always makes rent the first claimant, with others getting the leavings, or the "residual," as it is put. Other economists using the residual method give labor/capital their marginal products, with rent getting the residual. George's approach makes the landholder less passive and reactive, more importunate and demanding. George's approach has a lot to be said for it in terms of realism. Landholders are paid first when: a) they are paid up front by selling title to the user; b) they charge a cash rent; c) appraisers and tax assessors separate land from building values by using the "building-residual" approach; d) urban speculators buy old junkers and tear them down for the land underneath them. Rent takes priority over other claims on the product because landlords have the power to evict for non-payment. Few can survive eviction, so rent comes first.

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### Chapter 3: "Interest and the Cause of Interest"

#### 1. What is George's procedure, calculated to produce a unified theory? 173

We will seek each law separately: the laws of wages, interest, and rent. Then we will see if they "correlate," meaning "add up to 100%." Cf. p. 216, and Chapter 7, where George recaps and wraps this up. This book is well articulated and hangs together.

We are witnessing here the conception, if not the birth of the unified marginal productivity theory of distribution. J. B. Clark and Philip Wicksteed picked up from here. This is what Marx never did get.

#### 2. What does George mean by "interest"? 173

As we saw earlier under "The Meaning of the Terms," George means the rate of return on capital proper, net of land. Keynes called this the "Marginal Efficiency of Capital" (MEC). Today we call this the "Marginal Rate of Return" (MROR), as against the Average ROR (AROR), which includes land rent.

#### 3. How does George's use of "interest" differ from that used in today's published national income accounts? 173

George's interest includes all marginal returns for the use of capital and not merely those that pass from borrower to lender. (Today we say it includes tacit as well as explicit interest.) Thus it includes the return on all owned capital. It excludes, however, the rent of land. It excludes most interest paid on loans, for that would be double counting: the return to owned capital is what he means by interest.

George is not trying to measure interest, but identify the forces that determine interest rates and the MROR on investing. Today we say there is a "structure" of rates that rises and falls together, subject to common forces, and we take the "prime rate," virtually risk-free, as the index to the whole structure. George is saying, let's see what determines this prime rate. Thus he, like modern economists, is not denying risk, but abstracting from it, to focus on other matters.

It strikes us strangely today to read George's usage where "interest" includes the net yield of owned capital. To avoid confusion, from here on I will use the following terminology. NROK means the Net Return on Capital (George's "interest.") MROR means the Marginal Rate of Return on Capital (MNROK/MK).

#### 4. What happens to interest rates as society progresses? 174

They fall. George is here reflecting the teaching of 19th century classical economics, reinforced by his direct observation as a San Francisco journalist. Malthus, Ricardo, Mill, and Marx all saw advanced countries as creating more capital than could be absorbed at positive interest rates. Malthus, Ricardo, and Mill attributed this to diminishing returns, i.e., applying more and more capital to a fixed base of land. Marx attributed it to under-consumption. George's analysis here is addressed to the Malthus-Ricardo-Mill view. Later, p. 266, he discusses under-consumptionism, which he calls the "over-production" theory, as was done in his day (same idea, different name). George observed what was lately called the "continental tilt" of interest rates, with higher rates in growth areas like California. The "tilt" is the lure by which they import capital from stable or declining areas in the east.

The existence of a prime rate at 20% in 1981, 102 years after George's prediction, and 120 years after Mill's and Marx's, makes one wonder, though, if zero-interest is our destiny after all. Capital shortage seems to be the lot of most economies, most of the time. The potholes in our streets display a huge need for more capital now, and continually.

George is on stronger ground when he scolds Mill for assuming always an opposition of wage rates and interest rates. Too bad he didn't quote Mill more, but he could have, for Mill, generally so brilliant, is guilty on this point.

5. What is the relationship between interest rates and the "productiveness" (evidently meaning average product) of capital? 174

Inverse. This is hard to measure directly, but he has in mind that rents are very high in London, and high rents imply a high average product of capital, and a high average rate of return (AROR). But the interest rate (MROR) is low there.

6. Is capital rewarded because of inventions and technology? 179, 195

George says no, here and elsewhere. Inventions are one thing; saving is another. There is no reason why the productivity of the tool should inure to savers in general. To be sure, a swarm of capital-using inventions would raise the demand for capital; but many inventions are capital-saving (a recent such invention is fiber-optic cable).

He also observes that interest rates do not rise with the "march of invention," but are very low in the cradle of invention, England. What are high there are land values.

7. To what does George attribute interest? 180 ff.

To the productivity of capital. He exemplifies this by the generative powers of nature, or life, that work while man sleeps.

George correctly associates interest with time, and says time is productive because life grows. Capital is interchangeable and exchangeable, so if it yields an increase in living forms, then no one will invest capital in other forms without requiring an increase there, too. He invokes the principle of arbitrage, as he does so often.

8. What besides biological growth is a productive use of capital? 185

On p. 185, George allows that capital yields an increase when used in exchange. Recalling that he has defined capital as wealth in the course of exchange, this could be construed as covering everything, but that is evidently not how he means it. He writes on p. 186 that "adapting" is also productive, without reference to exchange (and on p. 73-74 he treats Robinson Crusoe's canoe as capital, with no possibility of exchange). What he is leading towards is a more general definition of capital as everything that man has produced, but not yet consumed. The reason he has not consumed it immediately must be because it yields, in some sense, an increase.

è The details of George's interest theory are poorly developed, but this chapter contains the elements of a sound productivity theory of interest. Like the Physiocrats, George stresses the productivity of living capital. Like his contemporaries Wicksell, Boehm-Bawerk, and Jevons, he stresses the role of capital in carrying goods over time. Like a modern Chicago economist, he leans hard on the role of arbitrage, which tends to equalize MRORs in all alternative uses of capital.

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#### **Chapter 4: "Of Spurious Capital and of Profits Often Mistaken for Interest"**

1. What does "spurious" mean?

False; pretended.

2. Are land values capital? 189

No. See Gaffney, "Land as a Distinctive Factor of Production." Land and capital are mutually exclusive, and each is "limitational" (meaning some amount, however small, is required for all production).

3. Do government bonds represent capital? There are two answers, depending on how the bonds are used.

a. Page 190, not if the money was wasted. George's example of waste is military spending. This is closely paraphrased from Mill, whom George studied closely and for whom he held a love-hate fascination. Mill hedged by saying that sometimes military spending is justified; George omits that part. Other passages and works, however, as well as his personal history, indicate he did regard some military spending as productive.

George notes in Book VII that military spending is mainly to acquire, retain, and police land, so the land is what the bonds represent. This of course justifies taxing the land to pay off the bonds, even if the land receives no other public services. On p. 384 George notes this, citing Andrew Bisset, *The Strength of Nations*. This book describes the military finances of Wm. The Conqueror and his successors. George's biographers tell us that reading Bisset's book is what crystallized George's thinking on land taxation.

In the present passage, George seems to imply that the taxes in question will come from wages and interest, not rent. Later, however, in *Protection or Free Trade?* (1886), George clarified his position, saying that all taxes ultimately come out of rent, no matter what their original impact. This is another tenet that he shares with Francois Quesnay, the leading Physiocrat. It is called "The Physiocratic Theory of Tax Incidence," and is used by many modern economists. It is valid in respect to "open economies," meaning small jurisdictions with open borders for the movement of labor and capital.

b. Page 191, public works are a "productive" use of capital. Bonds issued to build them represent that capital. He gives this point only half a paragraph, but it is there.

In 1887, eight years after George published *Progress and Poverty* in California, and one year after he had run for Mayor of New York City, Assemblyman C.C. Wright of Modesto, California, carried legislation to let small farmers form and control Irrigation Districts that could issue bonds to finance irrigation works. They could and did tax real estate in the districts to pay off the bonds. In 1907 a new law let them exempt all improvements and assess land only. Most of them promptly did so. In 1917, exempting improvements was made mandatory. Many of these California districts are premier practical demonstrations of George's land tax, at least at a local level. They are, of course, rural, although George's main influence was in cities. They display the versatility of his brand of "land reform": it applies to land per se, whether rural or urban.

The bonds are not liens on the capital in the works, but on the lands the works serve.

4. How do corporations pay dividends on stock issued in excess of capital received? ("Watered" stock is the common term.) 191

By acquiring and exploiting a monopoly, so that profits are much greater than a return on the real capital used. On these monopoly profits "certificates" are issued, and "interest and dividends paid." That means the promoters who created the monopoly turn it into immediate cash by selling part of the company to new shareholders, and/or by borrowing on it by selling bonds.

George at this point attributes these monopolies simply to the power of massed capital. One wonders why George, the land reformer, does not associate the railroad monopolies with their vast land grants, and their valuable rights-of-way. Probably it is because he was already well known for making that point in his earlier work, *Our Land and Land Policy* (1871). That book was a pioneering expose of the railroad land grant scandal and its excesses. It is still cited today by historians as a path-breaker. One suspects that he was holding in reserve his big guns about land monopoly, to maintain the attention of readers who had been conditioned to think in more conventional terms. At this time he was reaching out to the European-trained socialists.

Note the big dig at Western Union, p. 193. George's San Francisco newspaper had suffered losses when WU, the big news monopoly of the time, had given preferential treatment to his competitors. George had launched an expensive, unsuccessful attack on the WU monopoly.

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## Chapter 5: "The Law of Interest"

1. How can capital be increased? 195

a. By saving, which George describes as reallocating labor to produce capital instead of immediately consumable goods.

b. By converting wealth into capital. See also p. 200.

Here he clarifies the relationship between consumer capital and capital-in-exchange: they are mutually convertible. Mill had said the same thing. You can live on your household capital while producing exchangeable capital, turning one kind into another.

Ricardo and Mill had written also of a conversion of capital between forms. They distinguished circulating and fixed capital. Only circulating capital, consisting of "subsistence," constituted the wages fund, but this fund was augmentable by converting fixed into circulating capital. Ricardo is explicit that this black/white distinction is only an expository convenience: the two forms shade into each other, and are mutually convertible. Thus Ricardo's wages-fund was augmentable by converting fixed capital back into circulating form.

In George, the same mutability of capital is accomplished by converting consumer capital into exchangeable capital. So George and the wages-fund theorists are not so different in substance, they just use different figures of speech to get at the same phenomenon: capital is malleable, unlike land. It is too bad that George never got around to reconciling his views with those of the wages-fund theorists: it could be done.

Still, George focuses attention here on a point neglected by others. In World War II (the big one) we drew down accumulated consumer capital like prewar cars, houses and furniture to pour capital into war plants. There is a reservoir of consumer capital that can be converted to other uses in time of need. This has the same effect as an elastic supply of Circulating Capital (CK).

That kind of thinking is needed today. Now, most economists lean exclusively on net capital formation as a way to supply needs for capital. They leave out two elements of flexibility in economic life. a) They leave out the mutability, convertibility, and versatility of the given stock of capital. b) They leave out the evolution of technology. Inventors respond to economic needs. When capital is scarce, we get capital-saving technology. It is embodied in the capital stock just as quickly, or as slowly, as the stock turns over.

Once we appreciate the role of capital turnover and convertibility in the macro-economy, we can also appreciate the trouble caused when turnover is blocked. Fixed capital (FK) can be converted to CK only at a rate limited by the built-in ability of the FK to yield Capital Consumption Allowances (CCAs). Extremely durable capital usually yields CCAs only very slowly. Land-saving capital is extremely durable. Overpricing of land leads to an excess of land-saving capital. This can lead to a liquidity jam or glitch in the macro-economy. We develop this theme later, as something needed to round out George's theory of depressions.

## 2. What is the relation of capital to labor? 198

Capital is stored-up labor. His point is that capital is augmentable, and therefore does not put a cap on employment, as land may.

Today we would add that capital may also be stored-up land services, as when land is used to grow timber. It may also be stored up services of capital itself, as when a tree adds another layer of wood to itself. That simply fortifies the basic point, however, that capital is augmentable.

## 3. How can capital get more without labor's getting less? 199

By adding more to output. Neither takes from the other: "each gets only what he adds to the common fund." Note the word "adds." This is marginal analysis being born.

George does not say it here, but his point is that the presence of more and better land raises the marginal product of both labor and capital, so each adds more to the common fund.

## 4. Are capitalists a separate class from laborers? 200

The classes "shade off into each other by imperceptible gradations." Here is the western American speaking, and reacting against the English assumptions of Mill. Those irritated him and help account for his attack on the WFT of Mill, whom he otherwise greatly admired. Mill sympathized with the plight of the "working classes," and sought to elevate them, but it never occurred to him they were other than a separate class. He viewed them with Pavlovian British condescension. There is a lot of class built into "classical" economics.

The class model offends George: he aspires to make capitalism democratic. His models are Jefferson, Lincoln, Greeley of the New York Tribune, McClatchy of the Sacramento Bee, and George W. Julian, the principled, egalitarian Senator from Indiana. Marx, by contrast, seizes and insists on the class model. He would not want capitalism any other way: it is his foil to condemn it. George rejects the assumption of rigid class structure also because it restricts economic mobility.

## 5. What determines the interest rate? 201

The interest rate is determined, like wages, by the productivity of capital on marginal land. Modern economists would phrase it "at the margin." It is standard investment analysis to rank investments, and all their incremental parts and dimensions, in diminishing order of RORs. The idea is to accept only those that equal or surpass the "hurdle rate." Marginal land is where the ROR = the hurdle rate, so nothing remains for rent. It is also where  $AROR = MROR$ .

## 6. What happens to the yield of investments in excess of the common interest rate? 201

Excess yields are caused by use of superior land, and are captured by the differentially high rents of that land. Interest rates tend to a common level, through the action of arbitrage; rents remain highly differentiated from site to site. Land value depends on "three factors: location, location, and location." Interest rates are the same from location to location.

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## Chapter 6: "Wages and the Law of Wages"

### 1. What causes the variation in wages between different employments? 206-08

George says Adam Smith covered it well. Maybe so, but he left out a lot that is considered important today. Labor markets are more sharply divided than the classicals may have allowed. Admission to the class who receive wages of management is restricted by a permanent economic factor that virtually guarantees the permanence of a dual labor market.

The factor is this. Wages of superintendence are generally higher for those who have more assets to superintend. There being no substitute for an owner's care and concern, the law of diminishing returns tells us

that unequal distribution of wealth leads to unequal wages of superintendence at the margin. Ross Perot's decisions over his billions are much more consequential than yours or mine over our mites, yet we all have all the time there is, no more and no less.

By comparison, the points more frequently heard, while important as symptoms, seem secondary. Social class, and the class content of education, are the results of unequal distribution of property. For example, you might learn just as much law at Citrus Belt night school as at Stanford Law School, the most expensive one in the USA, but the contacts and references aren't the same.

Financing expensive education is called "creating human capital." The word "creating" is a little misleading, because it is more often a matter of converting existing wealth into a new form. In this modern "certification society" some occupations are closed off by licensure. You have to spend time and money to get the license. Thus, there is a class structure within labor that reflects in part the prior distribution of property.

There are non-property factors, too. Within licensed groups, cliquishness and old-boy networks and politicking guarantee that neither ability nor prior wealth gets all the rewards. Labor markets are not totally blocked-after all, Lee Iacocca made it, and this nation has a long tradition of melting in immigrants. Within bureaucracies, employers often actually prefer immigrants, as well as native-born Americans from poorer backgrounds, because their lesser degree of security makes them more docile and complaisant. They are so glad to get into the American system, they take more abuse, and feel less shame about polishing the apple.

So George may be overstating things a bit to assume so much mobility among all forms of labor, but he would probably allow as much. The exceptions really do little damage to his case, and even strengthen it. In his limited time he could not get around to developing every point. Later writers in his tradition, like Thorstein Veblen, have done so at length.

## 2. Where do wages equal the average product of labor? 206

On marginal land (and, tacitly, using little or no capital). We teach this in production economics today.

## 3. What would George say about Say's Law? 208

The passage on 208 supports it, but elsewhere we find hints of underconsumptionism in George. He did not see a conflict between demand side and supply side economics: he proposed to raise both supply and demand. As a supply-side economist, he represents an ultimate: no economist ever devised a program more thoroughly geared to increasing production.

## 4. On what wages do all other wages depend? 212

All wages depend on wages in the lowest stratum. It would be more defensible to say that the whole structure tends to rise and fall together, subject to common influences, and that is substantially what George means. Here, as in his interest theory, his MO (modus operandi) is to take one part of an interdependent whole as the determinant, and let it govern all the rest. It is an expository device, not a fixed dogma.

## 5. How are wages affected by locking up superior land? 212-13

Wages are forced down, along with the margin of production. Here, George foreshadows his major thesis, much as a composer prepares the ear by dropping fragments of his major themes and melodies in his introductions.

## 6. What determines wages? 213

What labor can earn at the margin of production. It would be better to say that wage rates and the margin of production are mutually determined by the supply and demand of labor. Here, as elsewhere, George's MO is to take one piece of a large, interdependent whole, and make it the determinant, relying on arbitrage or other market forces to adjust everything else. This should be regarded as a mannerism, more than a substantive matter. It does not really invalidate his points.

## 7. Of what law is the law of wages a corollary? 216

Of the law of rent. It is obvious, but earlier writers have not seen it, although "if it were a dog it would bite them." Winston Churchill, in his youth a crusader for Georgist policies in Britain, commented on this. Quoth Sir Winston, "Many a man stumbles over the truth only to pick himself up and hurry along as though nothing had happened."

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## Chapter 7: "The Correlation and Coordination of these Laws"

Recaps the laws of distribution, showing their correlation as George promised.

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## Chapter 8: "The Statics of the Problem Thus Explained"

### 1. What keeps wages and interest from rising as their average products rise? 222

The landholders' share rises and soaks up much of the gains of material progress.

Today, economists express this by saying "excess profits are imputed away." They mean by this that they inure to the fixed factor in production, land. In terms of conventional cost curves,  $\text{Rent} = [P - \text{AVC}] \times Q$ , where P is the price of the product, Q is the quantity, and all factors but land are included in AVC. Land is the FC. AFC magically rises to soak up all profits above cost. That magic is how land rents arise.

On 223, just as on 171, he has rent taken out first; wages and interest get the leavings.

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## **Book IV: "The Effect of Material Progress on the Distribution of Wealth"**

### **Chapter 1: "The Dynamics of the Problem Yet to Seek"**

1. What question will George address here? 227

What makes rent rise with progress? Here is an interesting writer. He doesn't stop with statics, or relations of coexistence, as modern micro does. He moves right on to ask whence we came, and whither go.

2. How does Ricardo explain it? 227

By increasing population. Mill says the same. Both are following Malthus. Darwin, by the way, also followed Malthus. Darwin published in 1857 and, by the time George wrote, had become a new Holy Writ. Herbert Spencer had somewhat twisted Darwin's meaning into the idea that human life, too, was a struggle for "survival of the fittest" in a world of people who continually spawn more fry than resources can support.

3. How will George approach the question? 229

First suppose population to increase, with "the arts" constant; next suppose the arts to progress with population constant. The method is patterned after Mill's Principles, the expository model followed by George-but with opposite findings.

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### **Chapter 2: "The Effect of Increase of Population upon the Distribution of Wealth"**

1. Mill says added population always pushes down marginal returns, while progress in the arts may raise them. How does George differ from Mill? 231-32

George says the reverse. He rather understates here the degree of difference, which by reading further, and comparing Mill, we find is extreme.

Concerning the arts, George had much to learn from Mill; concerning population Mill had much to learn from George. Chapter 2 is one of George's more important and persuasive contributions.

It is not that Mill had never heard such arguments before; he simply rejects them. He rejects them more out of personal preference than observation. He is an English gentleman who cherishes a high degree of privacy and isolation. For all his idealism, he is something of a recluse and misanthrope. He projects his preferences onto the whole society, which he often tells us he doesn't like much. An economist has to submerge his personal preferences when analyzing the whole society.

2. How does added population affect the productivity of labor? 232

Increases it. There is a "more than proportionate increase" in production. Otherwise put, the Average Product (AP) of labor grows as the number of workers grows. A modern writer taking a similar position is Julian Simon, author of The Ultimate Resource (which turns out to be mankind). That, of course, is anathema to neo-Malthusians, and even worse because Simon is an able debater. I have not read Simon, and am not sure how many ideas he shares with George.

3. How does added population affect the productivity of land? 234-35

Increases it, but the increase is localized on particular sites. These are mainly urban sites, because cities are the centers of specialization and exchange.

By associating this increase with city land, George establishes himself as a pioneer urban economist. He was the first to put the spotlight on the hitherto undreamed of rise of city land values. He also resolves a confusion that had befuddled earlier classical economists. They had applied diminishing returns solely to farming, and alleged that the urban factory system was marked by increasing returns. That is easily refuted by a reductio ad absurdum, because if each site really evinced increasing returns, all the population and production in the world would focus at one point, and all land would be free. George attributes increasing returns to cities in the aggregate; to cities as composite organisms. This is compatible with there being diminishing returns on each site considered in isolation. In a later work, The Science of Political Economy, he clarifies and elaborates his position and disposes of the fallacy that individual sites can evince increasing returns at the margin. In the present work he is focusing more on the increasing returns to cities and societies as composite organisms.

4. Is George rejecting the law of diminishing returns? 232-33

George avoids using the term "diminishing returns," because in his contemporary reference group it had become "politically incorrect." Now, 117 years later, he would be clearer if he had used the term. Diminishing returns on particular sites can and do coexist with increasing returns to the whole nation or city. It is clear that there cannot be increasing returns on each parcel, else one parcel would absorb the labor of the whole world. Mill and other pessimists naturally went from that to seeing diminishing returns in the aggregate. Marx, a different kind of pessimist, went from that to seeing increasing returns everywhere.

Mill and others had fallen into a fallacy of composition. They overlooked the synergy among the different parcels, which George describes so fulsomely in his "Story of the Savannah." Marx's error is the reverse, and might be described as a fallacy of decomposition: he assumed what was true of industry as a whole must be true of each part.

5. Some of George's critics have accused him of over-generalizing from a purely agricultural theory, Ricardo's law of rent. Is that fair? 168, 224, 235-43, 246, 257.

It might be a fair shot at Ricardo, but George was among the first to see that diminishing returns applies to urban land use as much as to rural.

6. George has been accused of forecasting a fall of wage rates, a fall that has not occurred. Is that his forecast? 233-34; 241; 253; 255.

Not here. George says that population increase will raise rents most, and raise them as a fraction of the whole. He allows that wage rates may also rise, but not as a fraction of the whole. As a short-run prophet he did all right. The labor-price of land rose to an all time high in the 15 years after he wrote. After that it took a cyclical fall, but that, too, is something he forecast, as we will see. Then it had another big run-up after WW I, from 1918-29, followed by another cyclical collapse. Lately it has again risen to a peak.

As to the effects of the arts, however, in the next chapter, he takes a wild swing that is subject to criticism.

7. Why might George be called the founder of urban economics? 235-43.

The "story of the savannah," as these pages are called, is about the earliest description of the powerful synergy of urban linkages. George and his followers focused the attention of a generation on the high value (and high taxable capacity) of urban land. Some writers call him an "agrarian reformer," but that is sheer carelessness or ignorance. "Urban populist" comes closer to the mark.

8. Was George right about the "coal and iron beds of Wyoming and Montana"? 243

The coal beds came on strong after 70 years, if not 50. The iron beds may have been submarginal.

9. Who originated the concept of Spaceship Earth? Buckminster Fuller? Kenneth Boulding? 243

Read George and you be the judge. He was quite a phrase-maker.

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### Chapter 3: "The Effect of Improvements in the Arts upon the Distribution of Wealth"

1. What does George mean by "the arts"? Rembrandt, Beethoven? 229; 244.

Methods of production and exchange. This is the "Progress" referred to in the title. Now we are getting close to the answer to his original question: Why does material progress not alleviate poverty and unemployment?

With progress he includes also knowledge, government, police, manners and morals, which he says have the same effects as improvements in technology. This kind of progress would include even his own influence, which was great.

2. What is the effect of improvements in the arts? 244-45

To save labor, and raise demand for land. His spectre of technological unemployment is much better thought out than the simple perception that "robot replaces man." George thought in terms of three factors: land, labor, and capital. If the landowner could use capital to displace labor from the land, there was no place for labor to go. George teaches us to take "displace" literally: labor is driven from its place, from its land base. Landowners could live without as many workers as before, and dump the rest on the streets. This has obviously happened in farming, for example, forcing displaced people off the farmland into cities.

Now it is happening in cities, on urban land. On industrial land, many blue-collars are displaced by robots, etc. White and pink collars are being displaced by computers, which drive them out of office and retail space. Where shall they go when landowners displace them with machines? George gives more substance to this question than most techno-pessimists do.

Optimists say that new machines create new jobs, too, but in times like these they get awfully vague about specifics. Where, George would say, are these jobs? On whose land? When? Techno-optimists need to answer that question, with specifics. George is holding their feet to the fire. The unemployed can't wait.

Mill, actually, had faced this question head-on, and answered it better than most modern writers. Mill points out that there are also land-saving arts. Anything that increases yields per acre (the average product of land) is

land-saving. George gives one such example, p. 241, "thousands of workers to the acre, working tier on tier,..." but he attributes that entirely to increased population. Credit is due rather to the arts of architecture, construction, planning, and engineering that crafted the elevators, ventilators, pumps, central heating, load-bearing supports, plumbing and sanitation, etc.

George unconsciously gives another example, p. 243, in writing of spaceship earth and its hatches. The arts of mining let mineral energy substitute for animal energy, thus releasing the pasture land once used for draft horses. That was 1/3 the land used in farming, thus allowing a 50% increase in land growing food for humans. In addition, tractors can get into wet fields earlier in the spring than horses could; they can pull plows through claypans too tough for horses to handle; and otherwise increase yields per acre.

One point George overlooked, in his doom scenario, was his own influence, and that of people like him. The policies of George himself, applied to finance irrigation in California, are responsible for much of the increased yields that occur when dryland farming gives way to irrigated farming. The high yields of California farms have made fruits and vegetables so cheap in the east as to have taken much eastern land out of horticulture. California cotton has released much eastern land for other uses. All this production comes from what was all desert and swamp before irrigation and drainage changed it.

As an exercise, think of some more land saving arts. Remember that George includes government, police, manners and morals among the arts.

George's model and foil, J.S. Mill, thought of a few, too. Mill's Principles has a chapter on "Influence of the Progress of Industry and Population on Rents, Profits and Wages," in Article 4 of which Mill stresses that progress may be land-saving, not just land-using. George doesn't refer to this, even though he was directly juxtaposing his views with those of Mill. Mill, remember, said that population lowers wages, while progress in the arts is all that may offset this, and may even raise wages.

Mill's treatment is, to be sure, vexingly roundabout and obscure, because he runs all his effects through the cost of food, and its presumed effect on wage rates. (The idea is that if food costs less, the "working classes" will accept lower wages). Still, George would have strengthened his work by giving some heed to Mill's argument. When labor is dear, capital goes into saving labor; when land is dear, capital goes into saving land, and developing new lands. Thus the system is more self-equilibrating than George feared in this apocalyptic chapter. It is ironic that George, who expresses repeatedly his faith in the market's equilibrating powers, should overlook this kind of equilibration.

He might have weakened its immediate impact, because a doom forecast is great for grabbing attention and selling books. The fear of technological unemployment is ever present. He would have silenced some of his later critics, however, who have seized upon his doom forecast and used it to discredit him. Up until about 1975 they could argue that real wages in the United States had been rising; since 1975 they have been falling, however, and George's forecast looks more relevant now than ever.

### 3. What, rather than increased population, really forces down wage rates? 246

The progress of invention. Here George directly contradicts Mill, who said land-saving invention is all that staves off the Malthusian doom that punishes those who procreate excessively.

### 4. How is the demand for land affected by higher incomes? 247-49

Higher incomes increase the demand for land. Here George is on firmer ground, and even understates the point. There is a missing link in his argument; he is not explicit that demand for land increases more than demand for labor. But that is what he evidently meant, and he was sensationally right.

Land as a consumer good is what is now called a "superior" one, that is one to which people devote a higher share of their spending as they grow richer. It is reliably estimated, for example, that only 15% of the increased resource use from 1946 to date is due to increased population; the rest is due to increased resource use per capita.

For one example, driving and parking cars is incredibly resource-using, when you add it all up: the oil, fueling the military to secure the oil, the parking space, the interchanges, the freeways, the wider streets, the concrete and blacktop, the rubber, the steel, the paints, the air pollution, and on and on. And why do we have cars? So we can commute out to houses with larger yards, and ski farther from home, and keep vacation homes and country estates.

The richer we get, the larger the estates. Walter Annenberg has his own private golf course in Palm Springs, using enough water for a small town, pumped in from the overdrawn Colorado River. For less wealthy folk there are 100 other golf courses soaking up water in Riverside County, a Southern California desert. More generally, the share of land in residential real estate value rises with wealth, reaching a peak in places like Beverly Hills.

In George's time the English nobles kept vast country estates in that "overcrowded" country, and in Scotland and Ireland. To get a little more shooting and fishing room they evicted whole villages, who could go press on the means of subsistence somewhere else.

For a doomsday scenario one needs a "positive feedback" effect, a problem that aggravates itself. "Vicious circle" is the popular term. There is a vicious circular element in this increased demand for land. It increases the wealth of those who already have land, and thus increases their effective demand to have more.

Those who got a late start, or have fallen in the race, or devoted their lives and savings to serving others, they get caught on the wrong side of the wedge that is being driven through society. So today we have a growing army of the homeless who cannot afford even to rent a pad for the night. We have hunger in a country with farm surpluses and a program to slaughter one million cows to support milk prices. We have sickness without care. We have teen-age prostitutes exposed to disease and abuse. We have a shortage of prisons. We have armies of people living in underground economies, and another army of policemen chasing them around. We have a nation whose world-rank in every measure of health, education and achievement is slipping dangerously, and whose sense of mutual aid and solidarity is giving way to "every man for himself and the devil take the hindmost."

Considering all that, George had reason to be apocalyptic. We, too, have plenty to worry us today along the same lines he sketched out.

#### 5. What is "the final goal toward which the whole civilized world is hastening"? 253

To "the absolute perfection of labor-saving inventions," making labor redundant and dispensable. This is hyperbole.

We will see that George finally has three reasons why labor gets driven off the land: labor-saving invention; increased demand for land and land-intensive products; and land speculation. Here he puts most weight on the first. The other two are equally potent.

#### 6. What ever happened to the "great machine-worked wheat-fields of California"? 253

They were incorporated into irrigation districts, taxed the way Henry George recommended, and subdivided into small, intensive irrigated farms supporting a large population directly and indirectly. However, this movement peaked around 1930, and has been rolling backwards ever since. Now we have great machine-worked irrigated cotton and barley fields.

#### 7. What is an "unproductive laborer"? 252

This is a throwback to a concept George has previously rejected (p.32), but which Mill kept using and so crept back into George. "Unproductive" here evidently means performing personal services for rich landholders, and is intended more as a poke at the customers, and the servile relationship and mindset, than at the type of service per se.

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### Chapter 4: "The Effect of the Expectation Raised by Material Progress"

George is leading into his theory of boom and crash. There was no real study up to this time. There were complaints of "oversupply" (such as constantly come from self-serving combinations of producers), and logical demonstrations from Say and Mill and others that general oversupply was impossible, and could not explain crashes. They did not say, however, what does cause them.

Quesnay, Smith, Say, Ricardo, Mill, and other Greats preceding George, barely touched on this topic of overarching importance. It is hard to say why not: the boom/bust cycle was very evident in France and England. The South Sea Bubble of 1720, in France called the Mississippi Bubble, had been a monster, still remembered today. There were also others in the 18th Century, centered around canal building.

There were crashes in 1819, 1836, and 1857, that should have concerned Mill. Yet, Mill's contribution to the subject is limited to one page in his Principles, Book IV, Chapter IV, Article 5, where it is incidental to explaining the allegedly falling rate of profit. Marx in Capital refers to "crises," and "industrial revulsions," but they are incidental to his general theme about the secular (long-term) crushing of labor by capitalism. There are valuable hints in Marx that the ratio of fixed to circulating capital may rise during an upswing, but only hints. J.B. Clark, George's contemporary and survivor, kept promising to extend his work into "dynamics," but he just shone his readers on and on, never delivering. Ditto with Alfred Marshall. George is the first to face the matter head-on, attempt an analysis, and make it a major, integral part of his work.

#### 1. How does the expectation of rising rents produce the effects of a combination among landowners? 255-56

By causing landowners to withhold land from use, creating an artificial scarcity, just as combinations do. George's thesis is that land speculation, in its manic phase, makes landowners as a group act in concert as though they were one monopolist, withholding supply to raise price.

He might have added that landownership is extremely concentrated; and the non-reproducible nature of land makes it a natural basis for monopolies of all kinds. In local markets, a large landowner who controls a big share of the total supply is conscious of his market power. Markets for land are inherently local, because land is immobile.

#### 2. How has land speculation affected settlement patterns in the USA? 256-57

Scattered them widely over the continent and interfered with economical clustering. This has been heavily documented and is a truism of American economic history. Thorstein Veblen writes brilliantly about it in his Absentee Ownership, "The Independent Farmer," pp. 129-41.

#### 3. How has land speculation affected the settlement of growing cities? 257

Scattered it. George was the first economist to identify and criticize what today we call urban sprawl, a flagrant manifestation of market failure that has today worsened a hundred-fold beyond what George observed. Egregious as it is, we are still afflicted with a plague of "mainstream" economists who ascribe it all to "rational expectations." We should not be surprised at such rationalization, it accompanies boom-times, as predictably as fawners follow kings. In the 1920s their counterparts rationalized it as "ripening." Many a priori theorists are not very good about learning from history; their methodology leaves them little room to adjust to the facts.

#### 4. How has speculation affected timber harvesting? 257-58

Scattered it. It is part of George's genius that when he spots a principle he sees it at work throughout the economic system. He did not write that "theory transcends technology," but he instinctively extends laws derived by observation in one setting to help analyze others. Thus he saw continental sprawl; urban sprawl; timber sprawl; and, on p. 258, mining sprawl. In this sense he, too, is a theorist, but he was a news reporter first. Unlike the more introspective a priori theorist, he induces before he deduces: he begins with facts; then he generalizes from them.

Today, timber sprawl is as bad as then, thanks in part to market failure. Another factor today, especially in the West, is political and bureaucratic failure. The U.S. Forest Service, administering our national forests, cuts too slowly on the good sites. It neglects restocking when it does cut. Most notoriously today, it wastes our money on extending expensive roads to lands of high elevation, steep slopes, little rainfall, and thin timber that should not be cut at all, but reserved for scenery, recreation and watershed protection.

#### 5. Is land speculation episodic or chronic? 259

Both. There is a base level that is bad enough, but it rises to peaks of "mania." Words like "mania" are routinely used by historians and contemporaries observing peaks of land prices, so George has lots of company with this characterization. Today, "mainstream" theorists spin fantastic fibs about markets dominated by "rational expectations." History gives little support to such pretensions. Looking at the record, economic man is manic-depressive, and periodically goes mob-crazy.

There is no room for any rise of rents where workers are already squeezed to the bone, and MRORs are low. But in new countries with higher wages and MRORs, rents can rise by cutting into real wages and MRORs. Periodically rents rise too much, more than the market will bear. This force brings "recurring seasons of industrial paralysis," and to new countries, "seemingly long before their time, the social diseases of older countries; produces 'tramps' on virgin acres, and breeds paupers on half-tilled soil."

#### 6. How does land speculation differ from commodity speculation? 260

Commodities are reproducible; land isn't. Commodity prices are limited by cost of production, both up and down. Land prices start from zero, there being no cost of production, and can rise without limit, there being no competition from new production.

As noted earlier, capital can be land-saving. Land booms induce land-saving investments. These temper possible land price increases. However, they do so only slowly, and too massively, resulting in giant cycles of boom and bust, long in period and high of amplitude. We develop this theme below.

#### 7. What limits the "speculative advance of rent"? 260

The advance in rent is possible because much of the best land is locked up for the rise. In addition, in George's view, rents and land asking-prices keep creeping up whenever there is a period of prosperity and optimism, testing the limits. Landowners have the initiative to drive this process, since land price and land rent are prior claims on production. Labor and capital get what is left over.

What limits this rise is that labor and capital must be paid enough to survive and reproduce. When the landowners' overreaching demands leave them too little for that, many transactions can no longer take place, and production drops: a crash and slump. This in turn finally induces landowners to lower their asking prices to what labor and capital can afford and still survive and reproduce. The period of depression and readjustment is prolonged because land has more holdout power than labor and capital.

George is stingy with details on the mechanics of how this works. It is easy to see how excessive holdout prices for raw land would discourage building, or at least divert it to bad locations. But how about land under existing buildings? It is harder to see how a rise of its value can stifle production there. Let us supply this missing link. By doing so we can complete, and make sense, of this fascinating but elusive theory. What happens is that the rise of land value stops the capital from reproducing itself. This is the missing link.

Consider an existing building, solid, useful, and middle-aged. It is ready to be "milked," as a "cash cow." That means that most of its cash flow from now until tear-down will be regarded as CCAs (Capital Consumption Allowances), rather than income. CCAs are invested elsewhere, to conserve the owner's capital. When the building is finally torn down, the owner (and society) will have as much capital as ever.

Now suppose the price of the land under the building to rise, in a speculative boom, while the cash flow of the building remains the same. Let the land price rise so high it is now worth as much as the land plus building were worth before. Now, the owner does not need to conserve any CCAs to conserve his wealth: the rise of land price has done it for him.

At the same time-viewing the same point from another angle-the cash flow from the land plus building is now imputable to the land alone, to justify the land's higher price. The cash flow is all net income, because land does not depreciate. The owner may spend it all on consumption; being human, he begins to do so. Lenders descend on him and seduce him into borrowing on the land to increase his consumption. "Equity withdrawal" is the current term for it.

From yet a third angle, the building has undergone "locational obsolescence," and lost its economic value. Physically, it may look the same; economically, the land has sucked the reproducible capital out of it.

From a fourth and last angle, capital, to survive, must earn cash flow enough not just to cover interest on the unrecovered value, but also enough above that to reproduce itself. As Mill said, "Capital is kept in existence from age to age, not by preservation, but by continual reproduction." Capital reproduces itself by yielding CCAs. When rising land prices devour capital, and/or rising ground rents arrogate its CCAs, capital stops reproducing itself. This is how rising rent drives capital out of production. It is not that capital sulks; it is drained and consumed by the rise of all-devouring rent.

This ruin occurs without apparent harm to the owners of buildings when, as is the rule, they own the land under them. It is silent and insidious, like a vampire in the night. It would only be contentious and "newsworthy" if the land were owned by a different party than owns the building, and the lease expired. There are such cases-in trailer parks, and on the Irvine Ranch leaseholds in Orange County in the early 1980s-when the sapping of capital is visible and contested. As a rule, though, it passes unnoticed: no one seems to be suffering. No one rebels or can plead injury, even as a big share of the nation's precious capital stock shrivels and dies without reproducing itself.

After that, there ensues a shortage of loanable and investable funds. That, in turn, slowly grinds down land prices and rents. This, I believe, makes sense of George's statement that rising rent cannot permanently force interest "below the point at which capital will be devoted to production." It would be clearer had he said at this juncture "below the point at which capital reproduces itself." Shortage of capital, and tightness of loans, finally force down land prices. Labor, meantime, endures a period of acute suffering after job-making investing dwindles down.

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## **Book V: "The Problem Solved"**

### **Chapter 1: "The Primary Cause of Recurring Paroxysms of Industrial Depression"**

#### **1. What is the main cause of depressions? 263**

The speculative rise of land prices cuts into the earnings of labor and capital. Let us see how this might work.

a. 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 (the MROR) itself is what stimulates investing, which in turn is what makes jobs and incomes.

b. Businesses that rent their premises also get squeezed by rising rents.

c. A merchant goes into a new shopping center with a long term lease. His early rents are often too high, but he pays them 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, just as though they were selling the site.

d. Those who already own land that they might improve are squeezed less transparently, but just as effectively, by the higher opportunity cost of the land. They have the option of selling the land to a speculator. Their gain from improving the land is just the excess of the value of the improved site over the vacant site.

They also get a higher motive to "site-sit" and wait, if they believe future development will be much more gainful than current development for the present market. When the workaday facts of today begin looking dull and prosaic next to the gleaming expectations of tomorrow, look out.

e. Higher land prices and rents down-value and devour the residual value of buildings on the land. The value they devour is real capital. See above.

f. Builders needing land 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 rents fail to eventuate, 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.

#### **2. (a) What does "proximate" mean? (b) What "other proximate" causes are cited? 263**

a. Immediate and evident, as opposed to initiatory and basic. In a three-car crash, say, A hits B, making B hit C. B is the proximate cause of C's damage, but A is the initiatory cause.

b. Economic interdependency; currencies that contract when most needed; alternations in commercial credit; tariffs. Of these, shrinkage of credit is the most relevant. It destroys part of economic interdependency, which is the source of so much economic productivity. It is a result of the destruction and freezing of capital.

#### **3. How do labor and capital resist advances in land value? 264**

By ceasing production; it is their only way of resisting. In practice this means what? Declining to buy or rent land at the high asking prices.

There is room for great elaboration on this simple idea. 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 counterproductive rent-control laws.

Prior to ceasing production you would think that wages and interest were first forced down to a minimum. History does not support this. In fact, interest rates rise just before major crashes, as George himself notes earlier (p. 21n).

His theory could be modified to incorporate this fact. One way of doing so is very popular and persuasive, but probably incorrect. This is to say that speculating in land diverts capital investing from productive to unproductive uses. Warming to the theme, modern critics of the binge of mergers and acquisitions (M&A) in the Insatiable Eighties often state that the money spent to take over existing firms was diverted from building up new ones.

The trouble with that thesis is that for every buyer there is a seller: these are zero-sum transactions. The power to invest anew is not destroyed, it is transferred to the sellers. These, in turn, are selling off surplus or appreciated assets in order to buy new ones.

To make sense of this thesis we must go two more steps, to disentangle the essential from the incidental.

a. When assets appreciate, the owners regard that as current income, most of which they will consume. Selling the assets may be part of that process. The process also occurs without a sale: they might just borrow on the assets instead. Commonly they let the capital run down without replacement, eating their own seed corn so to speak, letting the rise of the underlying land value serve in lieu of a proper CCA (Capital Consumption Allowance). See above.

b. When land is overpriced, it leads to over-allocation of capital to land-saving investments. This waste of capital leads to a shortage of disposable or "circulating" capital. It is characteristic of land-saving investments that their payout is very slow; the capital in them is locked up for many years or decades. In a word, it "turns over" slowly, if at all. On the point, see Gaffney, "Land as a Distinctive Factor of Production."

The combination of (a), reduced net saving, with (b), waste and freezing of capital, leads to a shortage of disposable capital, and tight lending policies.

There is another factor George hints at. When land is first overpriced, 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.

Mill had written earlier 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. This is discussed more below.

4. Why don't capitalists needing land simply join in the speculative game? They could buy land at speculative prices and use it while it continues to rise in value, and they get the gain?

Many do. In a sense 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 his 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.

So now we have to interpret George's theme in terms of how 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:

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

b. 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.

c. Land value becomes collateral; its wild swings destabilize credit and money.

d. 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, as George says, p. 277. This behavior is inconsistent with the premises of the "rational expectations" theorists, but is good history: it has since been extensively documented, over several giant cycles of boom and crash.

5. What lets production resume after a crash? 265

Rents fall; productivity rises with the advance of technology, which has continued in the background; wages and interest fall. Once again the parties, chastened and more reasonable, can make bargains. Production and

exchange resume. Page 281, he sees this happening in 1878-79.

#### 6. What is induction? 266

Reasoning from the particular to the general, as opposed to vice versa. A.k.a. a posteriori, as opposed to a priori; or Baconian, as against Aristotelian. Or, loosely, empirical as against theoretical.

What George is doing at this point is shifting gears. He has just been deducing "the actual phenomena as resulting from the principle." Now he is reversing the process. He presents facts showing that depressions are preceded by speculation.

Actually, his overall approach is mainly inductive. He had been a journalist: reporting, editing, and finally publishing. He begins this book by observing a fact, a problem, then seeking its reasons. Only after finding them does he seek to generalize from them. Unlike most reporters, however, he does so with a vengeance. Cf. p. 295, where he says, "...the most diverse phenomena are seen to spring from one great principle." This is Newtonian: gravity applies to all materials, not just the apple that fell on Newton's head.

Philosopher John Dewey said that "an idea is a plan to solve a problem that arises in a social context." He would have liked George's approach: indeed he did like it, and often said so.

#### 7. What two schools of depression-explainers are cited? 266

Overproduction and overconsumption. Nowadays, the "overproduction" theory is called the "underconsumption" theory. That gives you a stark idea of how polar these two schools were, and are. It's underconsumptionism vs. overconsumptionism, plain and simple.

#### 8. What modern doctrines are descended from these two ancient schools? 266

Overproduction is much like underconsumption, which is a main ingredient both of Marxism, and early Keynesianism. It harks back to Mercantilism, when unemployment was blamed on lack of money. It has deep cultural roots in legends of misers, like King Midas. It attributes unemployment and poverty to lack of demand caused by excess of thrift.

Overconsumption is much like undersaving, which is now a main ingredient of supply-side economics.

#### 9. Has there been much progress in economic thought since 1879?

There are those who doubt it. There is advance in specious sophistication, or scientism-model building, number crunching, manipulating symbols on paper and in computers, and all that-but is there much essential philosophical advance? We have seen one instance of retrogression, the retreat from a three-factor analysis of Land, Labor, and Capital, to a dualistic theoretical world of only Labor and Capital. If there are advances, do they make up for the losses? Is there advance in practical policy analysis to advise governors, presidents, and legislatures? If so, why are economists today clueless and unavailing when asked why people can't find jobs, and what to do about it?

#### 10. What might block progress in economic analysis? 295; also Veblen, p. 53.

"And back of these elaborate fallacies and misleading theories is an active, energetic power, a power that in every country ... writes laws and molds thought-the power of a vast and dominant pecuniary interest. ... The great cause of inequality in the distribution of wealth is inequality in the ownership of land. The ownership of land is the great fundamental fact which ultimately determines the social, the political, and consequently the intellectual and moral condition of a people" (emphasis added).

Veblen (p. 53) put it like this. "... the Landed Interest was vested with title by prescription and was a formidable spokesman for absentee ownership, tenacious of its prescriptive rights and full of an habitual conviction of the justice of its cause."

Why might a discipline regress? Economics is cursed by its ability to identify and impute unearned income. The same vested interests are still bringing forth the same basic pleas, and they are so well-financed and supported as to suppress, distort, or crowd out whatever might threaten them. Academics have responded by retreating into obscurity and irrelevance, hiding behind impenetrable, ever-shifting techno-babble. They take refuge in, and exploit, the human weakness noted by George in commenting on Malthus: "high-sounding formulas with many people carry far more weight than the clearest reasoning" (95n). They present themselves to the world as technicians, free of values, ready to serve whatever goals "the public" sets. "The public" too often means their paying public, dominated by rent-takers.

#### 11. How does George refute the overproduction theory? 267

Most people still want more than they have. Recall also his earlier axiom that human desires are unlimited (245). By itself, this hardly does the subject justice, and would not persuade a confirmed "overproductionist."

#### 12. How does George refute the overconsumption theory? 267

There is unused capital. In recent times Paul Samuelson has made the same point against those who said there was a capital shortage. Again, by itself, this hardly does the subject justice. Neither George nor Samuelson addressed the point made by Smith, Ricardo, Mill and others: there can be too much fixed capital

but too little circulating capital. There is much fixed capital that looks real, but has no economic value because it is obsolete, or stranded for lack of fluid capital to operate or to complete it.

As indicated above, there is a silent, insidious consumption of capital via the re-imputation of its value to the land under it.

### 13. How does George use the theories against each other? 267

Each is the answer to the other. "... the trouble is that production and consumption cannot meet and satisfy each other. There is an obstacle which prevents labor from producing the things that laborers want."

So simple, so obvious-yet here we are still chasing our tails, 117 years later! We are a discipline that goes around in circles, slowly!

At this point George might well have added Malthus to the overconsumption side. Overproduction and Malthusian doom scenarios obviously answer and refute each other. U.S. farm policy since 1933 has exemplified the point graphically. Farm spokesmen demand subsidies to build up farming so we won't suffer from scarcity, and then more subsidies to cut production so farmers won't suffer from low prices-and they get away with it. Mankind has a high capacity for holding two contradictory ideas at the same time.

George is not buying. Here is his telling statement, p. 270. "For, though custom has dulled us to it, it is a strange and unnatural thing that men who wish to labor, in order to satisfy their wants, cannot find the opportunity ... it is not work that is short while want continues."

George's statement opens the door for him to identify a third force that blocks production and consumption from meeting and satisfying each other. On one hand are hungry, homeless families; on the other hand are people who can't find work. Indeed, they are the same people. They are not overproducing; they are not overconsuming. Something else keeps them from working to fulfill their needs. George seeks that "something else," and finds it in their lockout from land.

### 14. Did construction and completion of the transcontinental rails, linking California with the East, bring prosperity to California? 274-77

No. California grew slower than other states. That is historically correct. California was a land of "great expectations," but land speculators overpriced land so as to skim off the hoped-for gains in advance of their creation. The first state motto was "Bring me men to snatch my mountains, and plains, too." It soon evolved into "Bring me men to match my mountainous land prices." California was a golden paradise, but mainly for land speculators, not for builders and makers. The coming of the railroad simply raised asking prices for land more-more than warranted.

George was molded in a place, San Francisco, and a time, 1852-79, of chronic hostility toward speculators who were slowing the growth of the State and its jobs, and turning a democratic dream into a plutocratic horror.

It is hard to agree with the way George handles every point he advances, pp. 269-78, but the points he raises are the right ones. They should stimulate your interest in studying history.

### 15. Where do depressions originate? 268

By cessation of production in (and therefore demand from) "the newer countries, where the advance in land values has been greatest." (George is referring to the percentage rise in values, not the absolute dollar rise, which might be higher where values were already higher.) You should interpret "newer countries" broadly to include new regions within all countries, and newer neighborhoods and suburbs in all cities, etc.

Subsequent events and studies have borne this out. Capital flows from older centers to growth areas during booms, and is called back during busts, creating swings of highest amplitude in the growth areas. Remember from history, "In God we trusted, in Kansas we busted"-that was from 1890, during a four-year period when "fully half the people of western Kansas left" to go back east.

The "official" crash happened in 1893, but was preceded by the Kansas and other growth area crashes which, being far removed from the centers of information and opinion formation, made little impact on the "establishment." Likewise in the 1920s there was a farm crash in 1920; a drop in urban building from 1926, and a Florida crash of the same date. But the "official" crash came in 1929. It became real when it hit New York.

### 16. Why do crashes come suddenly, if the cause is a slowly rising pressure from rising land values? 278-80

The developing areas are supported by credit extended from older areas, until credit is recalled in a panic. Credit is, as George says, like a rubber band that gives before breaking, until suddenly it snaps.

Now here we have something. George, who often chooses such striking examples, understates this point with his example of the English merchant selling gaudy calico and Birmingham idols, and financing his buyers. The heavy credit went from England to the colonies to finance rails and cattle and such substantial developmental items.

J.S. Mill had advanced a related idea in his chapter on the tendency of profits to a minimum (Mill, Principles, Book IV, Chapter IV, Article 5). Mill sees profits driven down to a minimum by the formation of more capital than can find profitable use. Then investors, rather than accept safe, low returns, give a "ready ear" to riskier ventures promising higher gains but risking great losses, which in fact occur.

Modifying Mill with George's idea, profits are driven down, not by a glut of capital, but overpricing of land. Then investors give a "ready ear" to riskier ventures-and more deferred returns, in land-saving and marginal developmental ventures. When the land bubble collapses, these risky ventures in saving and developing land prove to have been ill advised. Land now becomes too cheap to warrant and repay such outlays to have saved it. Thus the capital is lost, and there is little recovery with which to meet the next payrolls. Ricardo pointed this out long ago. Veblen developed a theory somewhat along George's lines, but with "goodwill" substituted for land value as the overpriced siren that leads the sailors on the rocks.

So George's theory is incomplete, and yet contains an essential element on which to build a complete theory.

17.

Who today corresponds to George's English merchant selling trinkets on the West Coast of Africa? 278-79

America's largest banks financing LDCs and iron curtain countries, extending very risky credit, throwing good money after bad, and belatedly pulling back with heavy losses that they try to make the taxpayers eat for them.

18. How was George as an economic forecaster? 281

Not bad. In 1878-79 he forecast a recovery, that in fact did occur, 1880-93. Marx, recall, at a corresponding phase in the preceding great cycle, had forecast a slump after 1867. Marx's slump turned out to be a boom, 1867-73. It may be that George's sharp focus on land prices gave him an edge.

Each man agreed that the secular (long-term) prospect for working men was dark and gloomy, unless his recommended reform were accomplished. In George's case, his reform could be tested incrementally, and a fair movement took place in his direction during the Progressive Era, 1901-20, and it did indeed alleviate the hard lot of labor. In Marx's case it was either/or. His reform was not tested until Russia, 1918-91, along with East Germany, Albania, Maoist China, North Korea, etc. The result is history.

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## Chapter 2: "The Persistence of Poverty amid Advancing Wealth"

1. What holds down wages, by George? 282

Rent absorbs the gains of progress.

2. What does the natural man give up in becoming part of an interdependent economy? 285

"...the essential quality of manhood-the godlike power of modifying and controlling conditions. He becomes a slave, a machine, a commodity-a thing, in some respects, lower than the George goes on to describe how workers become cogs in a machine. They "suffer all the privations of the savage, without

his sense of personal freedom." When the assembly-line came along with Henry Ford, in the early 20th Century, the point became even stronger. By 1938 it had become a cliché among the literate. Hollywood turned the cliché into Charlie Chaplin's first talkie, Modern Times, and it was hailed as an original idea! People may have lifted from George without credit, or just seen the point themselves. George, in turn, might have been influenced by Tom Paine. Paine had written, in the 18th Century, that "the life of the Indian is a perpetual holiday compared with the lot of the European worker." Like George, Paine attributed this to the Indian's access to land.

George is like Marx in reminding us from time to time of the desperate lot of the landless, except that George uses a lighter touch, lurid as it may seem to you.

3. How does George express the value of rent relative to wages? 289

He compares land values with the estimated value of the population if they were all slaves.

This mode of comparison has been scrupulously avoided in our national income accounts because it dramatically emphasizes the difference between labor income and land income. The value of a slave is based only on his output net of subsistence and replacement-subsistence including sustenance during the unproductive years of childhood and old age and sickness.

Earlier classical economists agreed with George. When they wrote of "income" they generally meant pure income, and they recognized that common labor didn't have much because most of what workers earned went for subsistence and replacement. Land rent on the other hand was pure income. When the income tax was new, in 19th Century Britain, they taxed land income at a higher rate than labor income, recognizing that most of the latter was not net income in the same sense as land income. Many who voted for the 16th Amendment (the income tax) in 1913 thought they were voting just to tax property income-no one dreamed then that wages were to become the main income tax base.

When modern tax protesters ask why they can't depreciate themselves as they grow old, or claim that wages are not income in the sense of the 16th Amendment, they are not making it all up. But they are fighting a new conventional opinion that is backed by a powerful vested interest, one that operates by ridiculing threatening ideas as crankish and eccentric, and is armed with means of jailing those who seek to implement those threatening ideas.

Let's repeat George's comparison today. What is the value of 231 million Americans as slaves? Are we worth \$50k each, net, purely as workers? That seems quite generous when we include all ages and conditions, and deduct all costs of birthing, nursing, doctoring, rearing, educating, transporting, etc., plus

the cost of putting us out to pasture after retirement. It is more than most people leave when they die, and most of that comes from property income anyway, not from labor. At \$50k each we would be worth \$11.5 trillions. The land of the USA is worth about the same.

The NIPA accounts bury land rent in other headings, and treat the entire gross income of labor as wages, thus giving an impression that rent is a small share of national income. George's method gives a startlingly different perspective. Think about it.

4. Comparing regions, where do you find poverty amid wealth? 288

Where wealth and land values are greatest, as in England.

5. Comparing different centuries, have real wages risen much in the history of England? 289

Not if we believe Hallam and Rogers, as cited. The Gothic cathedrals also stand as evidence that our medieval ancestors were not as hard up as we sometimes are told. The labor-price of land was very low in the 14th and 15th Centuries, not just in England but in France and Germany, too. In spite of The Black Death, and the 100 Years War (or perhaps because of them), the absolute living standards of labor were higher than in 19th Century England. It was the consolidation of central power in the 16th Century that devastated what had been "Merrie England," filled the roads with vagrants, and raised the labor-price of land. Oliver Goldsmith ("The Deserted Village") and Thomas More (Utopia) have told the story in literary form; Hallam and Rogers filled in the numbers. Ireland, Scotland, France, Spain, and Germany suffered the same fate in that same, frightful 16th Century.

6. What does George mean by "land monopoly," a term he throws around freely? There are many landowners.

Adam Smith and J.S. Mill used the term; George is following their lead. Those who criticize them for not using the term as modern texts do are committing an anachronism. Smith, Mill, and George may not be faulted for not following modern texts they never had a chance to read. "Monopoly" to them referred to the fact that land could not be reproduced, so those who held the existing supply would have no new production to compete with. "Monopoly" also connoted what today we call tenure, or private possession, of resources that had earlier been common and open to all.

7. How does George move from the general to the particular? 295

When he says ". . . the most diverse phenomena are seen to spring from one great principle." This is deductive reasoning which, if the principle is true, is a great clarifier and work-saving device. "Theory transcends technology" we say today, so a principle like diminishing returns applies to all technologies, just as gravity applies to all materials, not just the apple that fell on Newton's head.

A standard expression for this is "seeing the cat," a reference to the face or figure hidden in the scrollwork (p.295) being that of a cat. Seeing the cat is the flash of recognition, the epiphany on the road to Damascus, the conversion and understanding never lost once gained. Once you see the cat you see it in everything.

This can make one a great bore, of course, especially if one sees cats where there are none, and overlooks giraffes where there are some. But many social facts do indeed "group themselves in an orderly relation" according to George's principle.

Once again, now, what is the principle? That land rent rises to absorb most of the gains of material progress. George's example on 294 is telling. Manhattan Island passed for \$24 in the 17th century.

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## **Book VI: "The Remedy"**

### **Chapter 1: "Insufficiency of Remedies Currently Advocated"**

1. Into what six classes does George array proposed remedies for review? 300

Economy in government, education, unions, cooperatives, governmental interference, and wider land distribution.

2. Would labor gain from economy in government? 301.

No. Do you fully agree? Most readers think he overstates the point. Good government should raise the productivity of labor at the margins, and raise wages.

3. How would economy in government affect the margin of production?

Extend it. George likens economy in government to an advance in the arts, which he says is labor-saving. (We have taken issue with that point, in commenting on his chapter on "The effect of advance in the arts," because these advances may also be land- saving.) However, what if government disgorges surplus landholdings, so idle land can be put to use by private people? What if economy in government allows a reduction of destructive

payroll taxes, and taxes on buildings, machinery, furniture, and fixtures? These economies in government will raise the margin for labor, and investment too.

#### 4. How was "Boss" Tweed's popularity affected by his prison sentence? 302

He was cheered. The proletarians felt he had not robbed them. He was a Robin Hood to them. Can you think of later such cases? How about Ferdinand and Imelda? There is still the Daley machine in Chicago. In parts of Oklahoma, Arkansas and Tennessee an honest man could be in danger. The Mafia is reputed to control garbage pickup, gambling, trucking, and other things in some cities.

In modern California the main business of plucking cities has gone middle and upper class, and grown more sophisticated, professional, and respectable. It is done now through bond sales, investment bankers, law firms, engineering consultants, construction firms, redevelopment agencies, Chambers of Commerce, civic boards, and land developers. Most of the persons involved are main line Americans: Elks, Kiwanians, Rotarians, Shriners, and patrons and monitors of charities, hospitals, churches and universities.

#### 5. How does George use China to illustrate his point about the effect of education on wage rates? 305, 308

Widespread education simply made employers take education for granted. It did not prevent wages' falling to a subsistence minimum. Cf. Ireland today, where McDonald's in Dublin is staffed entirely by college graduates.

Today we might compare Japan, where the life of students is living hell from an early age. Students are trained to cram for weeks on end with 4-5 hours of sleep a night. Exams are used not so much to encourage learning as to test endurance and docility. Suicide rates are high. The suicide rate is a pretty good index to how people evaluate their own lives. Natural savages may suffer high death rates, but not by their own choice. So far the system "works," in spite of the misery it brings, but who gains? The value of land in Tokyo rises to \$10,000 per square foot, about 10 times the maximum found in major American cities. Not much incentive to hara-kiri if you fall into a piece of that action, but quite an incentive if you have to buy your way in.

#### 6. How does George use Ireland to illustrate his point about the effect of cheap food on wage rates? 306

Introducing the potato in Ireland let the Irish live on less land, so they bid up rents. But since potatoes are land-saving it would seem something more is needed to complete the explanation. Land-saving technology lets rent rise on the lands where it is used, but should release marginal land and thus raise wage rates at the margin. What is the missing chapter in this story? There must have been clearances and enclosures that offset the otherwise benign influence of the land-saving potato.

#### 7. What would George say about two-income families? 306

Where it becomes habitual for wives (and children) to work, wages are driven down so that subsistence is impossible without whole families working. He might have added that "lower wages" also take the indirect form of higher prices for housing.

#### 8. Which is cause and which is effect: personal character, or the material conditions of life? 309

The material conditions of life determine personal character. Raise the conditions and character improves. Do you agree? One is tempted to question this view by looking at how much harder immigrants work than native Americans do; how much harder New Yorkers study than Californians do. But before interpreting the evidence this way, read George closer. He says that higher wages act to improve the character of "the laboring classes." Much of the dissipation and idleness we observe among rich American kids may be the result of their parents' rent income, and/or the futile emulation of the rent-taking rich by wage-earners who lack the unearned incomes needed to ease the path to luxury.

How about this? The children of wealthy people must be trained to conserve that wealth, or they will lose it. If the wealth is in land, the income flows in effortlessly, and the need for character, training, and self-control are at a minimum. If the wealth is in capital, on the other hand, it wears out and turns over and must constantly be reinvested and managed. In a society with low rents, or socialized rents, the possession of wealth would be only the possession of capital, not land. Thus it would require more character, self-discipline, and ability, not less. It is the ability to receive unearned income in perpetuity that spoils people, both those who receive it and those who observe it and grow cynical or emulative. Capital, on the other hand, must be intelligently redirected each time it turns over.

In Kuwait, the high oil rents are divided among all Kuwaitis as a social dividend. The result is that Kuwaitis import Palestinians and other landless people to do the hard work.

The upshot? It's not as simple as George says, but he steers us to issues of real consequence and suggests deep answers. This time, perhaps, he took on more than he could handle in a few words; but George was not one to dodge the big questions, and that keeps him interesting.

#### 9. Who was "Bunyan"? 310

John Bunyan, author of *Pilgrim's Progress*, a widely read moralistic tract in George's time. Not to be confused with Paul Bunyan.

#### 10. How do unions affect wages? 310

Unions raise wages in the affected trades, at the expense solely of rent. "The rate of profits" (MROR) is not reduced. Here, George evidently means the rate of return on investments of capital, which he had originally resolved to call "interest." He also clearly means returns to new capital; he notes that "fixed capital" (evidently meaning sunk capital) sometimes be milked by a union.

He denies that unions lower wages in other trades. But on p. 312 he seems to contradict this indirectly when he says that the amount of work called for in the unionized trade might diminish. That would tend to raise prices and shunt workers into other trades. Both of those would tend to reduce real wages in other trades.

#### 11. How does "fixed" capital circulate? 311

It is "only somewhat" less mobile than circulating capital, meaning it wears out fast and yields a surplus from which it is replaced. Here, as elsewhere, George makes capital out to be highly plastic and accommodating.

Ricardo had noted that the distinction between fixed and circulating capital is a difference only of degree. All capital circulates; "fixed" capital simply circulates more slowly. However, Ricardo, unlike George, also noted that the difference might be very great. Some capital yields back this surplus only very slowly, and the freezing of much capital in fixed forms can seriously deplete a country's fund of circulating capital with which real wages are paid. There may be, as Haberler said, a "glitch" in the market mechanism for recovering or liquidating sunk capital in times of severe need.

George would have done well to pick up on this point from Ricardo: he might have used it to support his explanation of business cycles, discussed later. The missing link in George's explanation of crashes is his overlooking this Ricardian point. He could have used it as follows. High land values stimulate land-saving and land-linking investments. Such investments are more "fixed" than labor-saving investments, i.e. they circulate or turn over slower. Thus, high land values make liquid capital freeze and clog the macro-economic pipelines.

#### 12. How would it affect the product mix to double wages in a nation? 312

George says the country would continue to import and export the same things as before. This is based on the silent assumption that wages constitute the entire cost of production. But in fact that is wrong, factor mixes vary extremely from firm to firm in any industry, and from industry to industry too. George may have been a pioneer marginalist, but he backslid badly here to the classical labor theory of value.

#### 13. What is a "compositor"? 312

A typesetter or printer. George was a member of the printers' union, and remained a member even later, when he had become an editor, publisher, and author. Those were times of natural democracy. Robert Schalkenbach, a printer, showed his appreciation by founding the Foundation that still publishes George's books.

#### 14. What does it mean "to stand out"? 313

To hold out, i.e. to forego income in order to bring others to terms.

#### 15. Why does land win struggles of endurance with labor? 313-14

"... what is inconvenience to them (landholders), is destruction to capital and starvation to labor."

Both sides have of course developed advanced skills in this warfare. Farm labor, for example, sometimes gains an edge by striking at harvest time when employers are vulnerable. On the other hand employers have responded by converting land to less intensive, less vulnerable crops, and substituting machinery for labor (with help from research supported by taxpayers at the University of California).

Some industries welcome strikes in order to help them restrict output and use their monopoly power. Some employers build networks of branch plants around the world so they can close down struck plants. Landholders continue to hold the high cards.

#### 16. How is George using the word "farmers"? 314

In the English sense, where a "farmer" is a capitalistic but landless businessman who rents land from a landlord and hires workers, thus standing between the two.

#### 17. What lets landholders combine easily? 315

The fixed and definite nature of land. Also, speculation produces the effect of combination even without combination. One could add more. Much land is in large holdings, employing many men, so already you have one employer dealing with many employees. Then there is Veblen's cogent point, that corporations in their very nature are combinations. But the law, dominated by landholders, has habitually exempted corporations from the rule against combinations and conspiracies, while labor unions were long held illegal as combinations in restraint of trade.

People come and go, but the large landholdings of today are in considerable measure the same as those of 1935. The owners have had generations over which to build up networks of mutual interest and aid: a "comity of property." For specifics, see notes on "Who Owns Southern California?"

#### 18. Why are unions inherently tyrannical? 315-16

Because a strike is a warlike act, so unions come to be organized like armies. It is not that businesses are so democratic, except by comparison. It seems the unions are organized so militaristically and hierarchically that they could not or would not let any rep participate in a free discussion.

19. How does George's breakdown of "cooperation" into two parts differ from the breakdown in common use today? 316 ff.

George has two kinds, cooperation in supply, and in production. Cooperation in supply means displacing middlemen. This is what we mean by a "Cooperative" today, and two main kinds are recognized: consumer coops, which are retailers; and producer coops that market for organized suppliers. George's cooperation in production refers to participation in risk, and includes sharecropping, selling on commission, profit-sharing, etc. These arrangements are called "participation" today. They are very common in most trades, and may reach high levels of complexity and (perhaps) sophistication, as in cinema distribution contracts.

20. What forms of participation are common today?

Farm sharecropping; mineral royalties; commercial rents which include a cut of sales; commissions; ESOPs; profit-sharing; etc.

21. Are they always geared toward promoting abundance?

They are exempt from prosecution under the anti-Trust Acts, thanks to the Capper-Volstead Act of 1922. They often act like any other monopoly, dividing and exploiting markets, controlling output, and destroying what they call "surpluses."

22. What is the "colonial or metayer system"? 317

Metayage is French for share-cropping; a metayer is a share-cropper. The words are used in Europe.

23. What was a "lay" (in 1879)? 317

A percent of the whaling catch, given in lieu of other wages. Social pressure, and the camaraderie of a crew on a long journey, took care of slacking.

24. Why does George not expect sharecropping to improve the lot of tenants? 318

It is just another way of collecting rent. If it is more attractive to the renter than the equivalent cash rent, it will simply raise rents, and force cash rents up too, to compete.

25. How does George regard income taxes? 320

Negatively. He foresees "a large number of officials clothed with inquisitorial powers; bribery, perjury, evasion, and demoralization of opinion, a tax upon conscience and a premium upon unscrupulousness, a lessening of incentive to accumulate wealth." Pretty good forecast.

26. Was he right to treat income taxation under the heading of "Governmental Direction and Interference"?

It's worked out that way, hasn't it? In some textbooks income taxes are called "neutral," that is, a way of raising revenue without distorting incentives. That is wishful thinking: George's insight was more on the mark.

27. Did the Jesuits really cover themselves with glory in their governance of Paraguay? 320

Not if we judge by the modern result, the bloody tyranny of Alfredo Stroessner.

28. What role for religion does George see in public affairs? 320

George, the only economist who routinely quotes Scripture with sincere intent, notes that the success of socialism would presuppose a strong religious faith, which is "wanting and is daily growing less."

29. What does George mean, "Society is an organism, not a machine"? 321

Society lives by the individual life of its parts, meaning the people in it. They would be stifled and suppressed if regimented. Again, this turned out to be a good forecast of events in Eastern Europe, even though socialists claim this is not "really" socialism.

30. What was "free trade in land"? 321-22

A British movement to free land from all restrictions on sale and use, in the belief that the market would then allocate land to its best use. British land had long been subject to primogeniture and entail and other restrictions on alienation, known collectively as mortmain (dead hand) provisions because they were imposed by persons now dead on persons now living.

"Free trade in land" was the conservative version of land reform. It followed the views of the "Manchester School," who believed free markets are a panacea, the golden key to solve all problems. Today in the USA, the same ideas are identified with "The Chicago School," libertarians, etc.

31. How does George criticize free trade in land?

It merely allows "the ownership of land to assume more quickly the form to which it tends," i.e. the form of concentration. If the objective were to equalize the distribution of economic power, free trade in land would not help.

The United States has practiced virtual "free trade in land" for over 200 years. Concentration has indeed risen to very high levels. Free markets tend to equalize distribution of land in the presence of substantial tax rates on landownership; otherwise not.

32. How does George criticize census data that show mean farm sizes falling? 322-23

- a. Value per acre is rising faster than acres per farm are falling, so in value terms the mean size is rising.
- b. The share of the population owning land is falling.

A few years later George did a more thorough job on this point, in an article called "The March of Concentration." He was challenged and put down somewhat condescendingly by (retired) General Francis A. Walker, Director of the Census, President of MIT, and Founder and First President of the American Economic Association—a formidable figure indeed. George replied in a heated debate in which he refuted Walker by inventing what is now called the Lorenz Curve, a means of expressing concentration as dispersion around the mean, rather than simply the mean itself. Walker was embarrassed, but was big enough later to moderate his views.

This debate may be found as an appendix to most editions of George's later book *Social Problems*.

Since that time the Census has reported on farm size by ranking farms according to size and telling us what percent of the farms contain what percent of the land, the way George said they should. The trend of concentration has been generally upwards from then to now, especially after 1930, when farm property tax rates took a deep fall. George's analysis and forecast were sensationally right. This is illustrated and documented in M. Gaffney, "Falling Property Tax Rates and Rising Concentration," available for this course. (Don't attempt this one unless you want numbers.)

George, like Marx, was impressed by economies of large scale machinery and firm organization. He maintains that operating economies of scale, rising with the size of machinery, are what make farms get larger. On this point, George and Marx have much in common. They were subject, after all, to the same influences, writing at roughly the same time.

Others, like Veblen (*The Instinct of Workmanship*) and E.F. Schumacher (*Small is Beautiful*), see more real economic efficiency in smaller productive units. Veblen, in *Absentee Ownership*, holds that landholding units grow larger for speculative reasons: people buy excess land as a store of value, without regard to operating economies. To Veblen, these bloated landholding units are what make operations grow larger.

Veblen's position is consistent with, and a logical extension of George's observations about "half-tilled acres" held by speculators. He was, in this respect, "more Georgist than George himself." Who was right? We could argue for months over that, and many people have. The point about George, however, is that it doesn't matter. Let the most efficient operator outbid others for land, says George: then tax land on the basis of the values thus set.

Geoclassical economist believes that Veblen and Schumacher were right about this; Marx and George were wrong. See "Falling Property Tax Rates and Rising Concentration" and "Land Reform through Tax Reform."

33. George cites California farms of 5,000 to 60,000 acres; and Dakota farms of 100,000 acres. Since 1879 which have gotten larger, Dakota farms or California farms?

Today we find several California farms larger than 60,000 acres; Boswell's is about 200,000 acres, and SP, Irvine, Newhall, Salyer, Tenneco, Rancho California (Kaiser-Aetna), Mission Viejo, Texaco, Arco, Chevron, Shell and others are right up there. But in (North and South) Dakota, where the value of land is much lower per acre than in California, there is no farm of 100,000 acres. There is also much less dispersion around the mean than in California. Dakota is not exempt from the trend toward concentration, but in California the trend is much stronger. Are there greater economies to scale of operations in California than the Dakotas? Not likely: Dakota is flat, flat land where small grains and sugar beets are the best use. But the speculative value of farmland in California is much higher: climate and location are ideal for high-valued crops, cheap subsidized irrigation water supplies keep increasing, and urbanization is ubiquitous. When we are trying to understand why this drift toward concentration is so strong and persistent, Veblen's speculative holdings may explain more than George's operating economies—and in a more consistently Georgist manner.

34. What were the "3 Fs"?

"3 Fs" were the demands of Parnell and other "moderate" reform leaders in the British Isles. They were Fair Rent; Fixity of Tenure; and Free Sale (of the tenant's interest). The basic idea was to carve out of the landholder's estate a separate interest for the tenant, which he could regard as his property and even sell to others.

3 Fs was also called "Ulster Tenant Right," which is what George calls it, p.324.

It is something like the way residential rent control in New York City, Los Angeles, San Francisco, Santa Monica, and other cities has evolved in our times.

## 35. How did George evaluate rent control, i.e. things like the "3 Fs"? 324

"... the tenants of the first landlords, who would become landlords in their turn, would profit by the increase."

In recent years Chicago-type economists have published many books attacking rent controls, yet they say little more than George says here on p.324. Again we see George anticipating thinking that has become commonplace since he wrote.

## 36. What is "plottage," and how would George feel about it? 323-24; 327

George does not use the word plottage, but the idea. Plottage is a real estate term for the increment in value per square foot (or acre, etc.) that is realized by assembling small parcels into larger ones. Plottage is positive only when larger parcels are more economical to develop and operate. George clearly believes that plottage is generally positive, so that laws against land assembly do more harm than good. By clear inference he would also oppose laws forcing subdivision.

George may be missing two points here, an economical and a political one. Economically the small farms have proven much more viable than the believers in scale predict, and the forces leading to concentration are more like those described by Veblen than the operating economies of scale here stressed by George.

Politically, small farmers in settling the American west have often organized to face down and tax the large ones and thus create more small ones. The Homestead Act of 1862 did not prevent most of the public lands' being given away in sweetheart deals to land barons; but it did plant enough homesteaders around to organize counties and various public improvement districts that, in some areas, succeeded in taxing those lands.

## 37. If land were divided in equal shares, who would be left out? 325

The increase of population. This was indeed the history of New England in the 17th century. The Puritans came from English villages where much land was held in common, and they applied the same system in New England, only more so. The New England "village green" or commons (like the well-known Boston Commons) is a vestige of what was originally a universal system. At first the old settlers welcomed newcomers and shared land with them. They needed friends and neighbors and soldiers to withstand Indian attacks. But in time the old settlers, feeling more secure, converted the lands to private holdings and let the newcomers come as second-class citizens. This movement accelerated after 1692, when William and Mary, the new English monarchs, decreed that the religious test for voting be replaced with a property qualification.

"Newcomers" include not just immigrants from Europe, but immigrants from the future, i.e. children. Families of 12 to 15 were the norm at that time and place, and most of them got left out. Too, there are always Scarlet Letter children, seldom less than 10% of any population. They are people too. Add also the orphans and widows and cripples and war casualties: in any system there are plenty of ways that insiders beget outsiders.

Utah, whose founders were steeped in New England traditions, is still going through a similar evolution today. Brigham Young's system of land-sharing had a lot in common with that of William Bradford.

## 38. What is morcellement? 326

Division of land into small holdings or "morsels." The word is French because the practice is French and Belgian. The Code Napoleon mandates French testators to divide their lands equally among all their children—the reverse of the English nobility's land covenants mandating primogeniture.

French practice went even further and mandated parcellement as well. Parcellement means each heir must receive an equal quantity of each class of land: village land, plowland, pasture, and woodland. Thus each holding consists of several separate parts, and in some areas farmers spent much of their work days traveling from parcel to parcel. George, observing or predicting this kind of problem, did not favor such "equity in kind," or "French equity" (as we may call it). He favored using the monetary mechanism to achieve the same equity without losing efficiency.

In recent times the French have tried to reassemble scattered holdings into more rational units. They do this through expensive subsidy programs at the expense of the general taxpayer, the working people. Not much equity in that.

## 40. What is "rack-renting"? 326

A pejorative description of charging a market rent.

## 41. Why, according to M. de Laveleye, do largeholders need smallholders? 327

As a "rampart and safeguard for the holders of large estates." Accordingly, statesman in other respects conservative or reactionary have been known to push programs to support smallholders. Otto von Bismarck and Adolph Hitler come to mind in Germany; Theodore Roosevelt in the USA. J.B. Clark, George's arch-critic, and founder of neo-classical economics, favored this, too.

American homesteaders were often more radical. The difference may have been their relative youth, and the method by which they acquired their holdings. Homesteaders were required to reside on their farms, often undergoing severe privations. They came into sharp conflict with large landowners, whom they regarded with deep hostility.

It is striking today, however, how little the "masses" require from the "classes" to enlist their support; and amazing how grudgingly the classes allow them that little.

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## Chapter 2: "The True Remedy"

### 1. How does George phrase the true remedy? 328

"We must make land common property." George was not one to pussyfoot. Most people would have avoided the shock effect of that phrase, whose connotations go beyond what George really intends when he gets down to implementation.

George knew what he was doing. Like Mill, George believed in taking an extreme position in order to make it easier for others to achieve moderate results. That was his chosen role. He played it well: his name has become a synonym for the policies he espoused.

### 2. What does George mean, "The laws of the universe are harmonious"? 329

The specific reference is to justice: if our remedy "is the true one, it must be consistent with justice."

More generally, George's effort is to identify and work with transcendent, lasting and universal principles. Like Washington, Jefferson and Franklin, George is a deist in spirit, a believer in the rationality and consistency of the universe.

George was also speaking the language of the times, even though those times and that language were passing. People believed there was a "natural order," in which all interests could harmonize. They could see they were losing it. George said, here is how you can retrieve the harmonious "natural order." He knew his audience, and what strings to touch.

More specifically, George refutes the commonplace idea that we must choose between equity and efficiency. That is simply a smokescreen to keep us from achieving either. George identifies a policy that brings us both at once. In his view, the natural harmony reconciles many other superficial opposites, as well. It:

- à Stimulates both the demand side and the supply side.
- à Is both micro and macro.
- à Is both local and national.
- à Downtaxes both labor and capital at the same time, without lowering public revenues.
- à Stimulates both investing and saving.
- à Stimulates both consuming and investing.
- à Controls urban sprawl without interfering with the market.
- à Reconciles common rights with private rights.
- à Attracts capital, and encourages capital formation, without giving away the store or untaxing the rich.
- à Lubricates the land market while extracting more tax revenues from it.

The dismal trade-offs we are told we must make are just ways to control and exploit us. The natural order means "we can have it all"! It's a compelling vision. Is it too good to be true? Read on.

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## Book VII: "Justice of the Remedy"

### Chapter 1: "The Injustice of Private Property in Land"

#### 1. What is the basis of property rights? 334

The right of a person to himself.

#### 2. What well-known philosophers anticipated George's formulation?

John Locke, Two Treatises on Civil Government, 1690; Thomas Jefferson, Declaration of Independence, 1776; Abraham Lincoln, Emancipation Proclamation, 1863. George writes in a long tradition: he didn't just make this up.

#### 3. Whom is George quoting, "the rain falls alike upon just and unjust"? 336

Jesus, Sermon on the Mount. In those days most literate people were conversant with the Bible, and took it seriously.

#### 4. What is his point?

Nature gives only to labor, no more to the just than the unjust. Whether that is what Jesus meant is an interesting question, but there is little question that Jesus was a Jewish prophet, one in a long line of Jewish prophets who were all land reformers. Jesus said, "Think not that I am come to overturn the law and the prophets, but to fulfill them." Previous prophets had urged the Jews to divide land equally.

#### 5. Is there really "no escape from this position," 336, that rent is part of the fruits of labor?

The marginal-productivity theory of distribution is such an escape. The "fruits of labor" are only the marginal product of labor times the quantity of labor, leaving rent as the product of land, and interest as the product of capital.

George, who did so much to pioneer a marginal productivity approach to wage determination, may seem here to be regressing to a pure labor theory of value. However, his meaning, as developed elsewhere, is more subtle and defensible. He recognizes that labor's direct product is only what it "adds" to output, and rent imputes to land. The subtle point is that he sees this rent as the indirect product of the people in the community, who by their "presence" generate land rents. Their "presence" causes demand for land; and also generates spillover benefits that increase the productivity of land. This is a subtlety that eluded J.B. Clark, founder of neo-classical economics, and has eluded most neo-classical economists ever since.

#### 6. Why does the law distinguish so carefully between personal property and real estate? 337

"Personal" property, in tax and property law, means movable property. Movable property in feudal law belonged to private persons, hence movable = personal. To whom did land belong? To the public, through the King. The English King who established this system was a Frenchman, William (orig. Guillaume) the Conqueror. William's court language was naturally French, in which "real" means regal.

"Real estate" means the King's property. Others hold land merely from him, as his tenants. We abolished kings in this country, but not sovereignty. We merely transferred this to state governments.

Buildings attached to land are a mixed bag. The lawyers have let them merge with land as "real estate." George is pointing out that buildings have more in common with personal property than land, economically. This is because buildings are capital. Like other capital they are built by man, and they wear out and must be replaced. George is right about this, and it is a key point. See the reading, "Land as a Distinctive Factor of Production." The upshot? Classical economists would have improved their analysis had they emphasized that buildings are capital, in spite of being fused with land in the word "real estate."

To sort this out, and keep it sorted out, simply keep three categories in mind: A = land; B = buildings; C = personal (movable) property. A+B = real estate; B+C = capital. B is the overlapping part that is both real estate and capital.

#### 7. Is it clear that all men have an equal right to breathe the air, as alleged? 338

It seemed so when George wrote, and our instincts tell us so. However, it is not clear if you follow Nobel laureate Ronald Coase of the University of Chicago, or the Federal EPA, or the South Coast Air Quality Management District. Coase and these agencies claim that ancient polluters with long histories of fouling the air have established prescriptive property rights, vested interests to continue polluting. It is called an "offset right"; the program for trading permits is called RECLAME: you read about it in the papers every month or so. Confirmed Coasians will even tell you that those wanting to breathe clean air should pay by buying breathing rights from vested polluters.

Even in the absence of these recent refinements, it has long been true that to breathe clean air you must rent or buy where the air is clean. Those locations rent or sell at premium values. It is this kind of inequality that George is seeking to offset. We will see he comes up with a workable, simple program for doing so.

#### 8. Can we not suppose that some men have a right to be in this world and others no right? 338

Some people have no problem with that supposition. They use the "lifeboat theorem" of Professor Garrett Hardin of U.C. Sta. Barbara. Hardin says the world is a lifeboat and those on board should keep off new boarders lest they swamp the boat and destroy all. Hardin is replicating Malthus, as quoted by George, 338-39n.

#### 9. Whom is George paraphrasing, "For what are we but tenants for a day?" 339

Moses. See Leviticus 25:23. Another excerpt from this chapter is engraved on The Liberty Bell in Philadelphia: "Proclaim Liberty throughout the Land." "Liberty" in Leviticus is not an abstraction: it refers to the Jubilee, a Jewish tradition of revitalizing society by distributing land equally every 50th year.

#### 10. What is "fee simple"? 339

The word "fee" derives from "feudal," and imports that the land is held from some superior to whom services are due. "Fealty" (loyalty) was also due, indicating the relationship was personal and/or patriotic, not purely commercial. Absentee ownership, especially foreign holding of land in fee, was unthinkable. It is a later development, one that still raises deep questions about the nature of nationhood, citizenship, and community.

What do we care today about ancient English Kings? Because our law of real property came down from them in the "common law," which is embedded in almost all state constitutions. Our word "own" comes from the word "owe": those who "own" land also owe obligations to the community, through the sovereign. The sovereign ultimately "owns" land, but he, in turn, owes the people public services. It is, ideally, a balanced system of mutual rights and duties on all sides.

"Tenure" of land means holding conditionally. Individuals hold from the sovereign, subject to various overriding powers which are still called "servitudes," such as taxation, police power, eminent domain, and control of fish and game (*ferae naturae*, to a lawyer). *Ferae naturae* are reserved to the sovereign; hence the power of game wardens to enter private land, and the application of bag limits to landholders, the same as others. The folk saying "I can do what I want on my own land" is a bumptious assertion of wishful thinking, rather than a legal truth. The only unconditional landholding is the "allodial" ownership, which George mentions later. It means ownership not subject to a sovereign. It is a rare bird: it means the owner is his own sovereign.

Landholders who fail to perform their servitudes are subject to "escheat," i.e. reversion of land to the sovereign. The most familiar form of escheat is loss of land title for failure to pay taxes. The sovereign State of California has delegated this power to counties, which sell tax-delinquent land from the steps of the Court House.

"Fee simple" is not simple; it only says the estate is inheritable free of any limitation to particular heirs. Entails (fee tail) are generally illegal in this country. Most states followed Virginia, where Governor Thomas Jefferson took the lead in outlawing entail, even before the Revolution. Other kinds of deed restrictions and covenants are still common, where not in violation of other laws. Their use for racial and religious discrimination was once common, but is now illegal.

#### 11. What does "seized of" mean? 340

Possessing title to land. It is also spelled seised, and like seize in the usual sense comes from the French *saisir*, to seize. This is no accident: land tenure originates in seizure, and the law has simply formalized and legitimized the process.

#### 12. How does the poorest infant born become "seized of" a right to land equal to that of the Astors (then the largest landholders in New York)? 338-40.

Here we have the heart of George's philosophy, in which a nation is an extended family in which being born gives you equal rights to land. This is a rather more practical application of the same theology that today says being conceived gives you a right to be born. George said that being born gives you an equal right to live, hence an equal right to the earth itself. This is "right-to-life" carried to its logical conclusion.

George often stresses that the world is occupied by succeeding generations, so equal rights mean nothing unless every member of every new generation, however humble or helpless, be granted equal rights.

Thomas Jefferson had said much the same, as brought out by George on p. 545. "All men are created equal; ... they are endowed by their Creator with certain unalienable rights ... " With what can the Creator endow us but that which is the Creator's to dispense, i.e. Creation, the Earth.

Whether that has any literal basis, who can say? However, if we believe it should be true, and act accordingly, that makes it true in practice. We, the nation as a community, have that power that Jefferson imputes to the Creator, to dispose over the Earth. It is a concept that attended the birth of the nation and that most Americans still seem to take seriously. George is simply making it concrete.

How about the "unalienable" part? Just as you cannot sell your child into slavery, you cannot sell or trade away your child's birthright, a piece of the Earth; nor can you buy or trade for the birthright of others' children. That is the meaning of "unalienable" rights: they are outside the market system.

It is up to the young to keep reminding the old of this, else it is easily forgotten in the rush to help pensioners and retired homeowners. The righteous used to protect "widows and orphans"; now, only the widows. Orphans still get some protection and support while in utero; after that it is *sal se puedes*, or *saue qui peut*. Young people today have grown less conscious of their rights, thanks in part to the hypnosis of TV and the decline of literacy. Old people have become more selfish because they live so long, have moved so much, and retire away from their communities, if any. So the system is increasingly stacked against the young; but they don't find out about it until tuition rises, and more so when they try to buy their first home.

#### 13. What California Governor borrowed George's wording, "unjustly enriched"? 341

Jerry Brown, referring to land value increments enjoyed by holders of desert land on the west side of the San Joaquin Valley, in Kings, Tulare, Fresno, and Kings Counties to which the State brought subsidized water. Interestingly, this was the very place, with some of the very same large landholdings, that moved George 120 years ago to write his first book, *Our Land and Land Policy*, 1871.

#### 14. How can California land titles go back to a king of Spain? 342

The treaty of Guadalupe-Hidalgo, 1848, by which Mexico ceded California and other areas to the USA, provided that existing land titles be recognized and undisturbed. Earlier when Mexico had rebelled successfully against Spain, the Spanish titles were likewise validated. It is a way for the winning nation to

minimize opposition from the losing one.

When you buy title to land the title is in the form of a chain going back to the first appropriator who followed our form of property law.

To the extent that the Spanish had originally expropriated the Indians, and were absentees, there was nothing necessarily "honorable" about "honoring" the Spanish titles. It was a political and military decision, to turn many of the Mexican landowners into Yankee collaborators.

It was different after the American Revolution, when the lands of many Tories (like the De Lancey family of New York) were confiscated by the winning colonial governments. Some 1/3 of the lands in the original 13 colonies were transferred in that way. Again, the lands of hundreds of Indian tribes were routinely confiscated throughout American history.

Spanish landowners have led a charmed life as their empire melted away, however: the Treaty of Paris ending the Spanish- American war also validated Spanish titles in Cuba and the Philippines. Those in the Philippines survived the Japanese occupation, also. Then they survived the American reoccupation after 1944-45, in spite of their obvious collaboration with the Japanese. They continue today as major obstacles to economic democracy in the Philippines.

The Church has not been so lucky. Many countries have confiscated Church holdings over the centuries, even though much church income is devoted to social welfare.

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## **Chapter 2: "The Enslavement of Laborers the Ultimate Results of Private Property in Land"**

### **1. What is philology? 350**

The study of speech to shed light on cultural history. It is an application of linguistics.

### **2. Does nobility give land? 351**

Rather, land gives nobility. The world is full of "decayed nobility," who lost their land and retain only their noble titles. They become pathetic or comic material for opera bouffe, and cease to count for much.

### **3. When did English landlords shake off the obligation of providing for the defense of the country? 351**

In stages. The abolition of military tenures by the Long Parliament was a major step (p.383). Tariffs and other excise taxes were introduced to pay for national defense.

The British taxpayer then was squeezed to do the same for many of the constituent states of the British "Empire." Britain always ruled by allying with local landlords who sold out their own countries and welcomed the British army because it relieved them, too, of paying for national defense and internal

suppression. The Indian name for such landlords is "Zamindar." A more generic term is "cacique."

Today it is American taxpayers who are used in this way, to relieve landlords in Latin America, Africa, Japan, the middle east and elsewhere of paying for their own defense. These, in turn, contribute heavily to American political campaigns and hire retired Congressmen as lobbyists.

### **4. Why are slavery and serfdom useful to landlords only in sparsely settled countries? 352**

To keep labor from moving to free land. In settled countries labor may be milked through the market, where labor is free to compete for starvation wages.

### **5. Why did the planters of the Southeastern U.S. sustain no loss from the loss of slaves? 354**

Because they kept control of the land, by George. He is oversimplifying: some plantations were divided, and many changed hands. But the system remained, so those without land continued to be exploited.

In many areas they instituted peonage (debt slavery) that was not notably different from the old slavery. Every time the issue reached the U.S. Supreme Court it threw out the state laws supporting peonage, but not many peons can carry their cases to the U.S. Supreme Court, and the recurrence of Alabama and Georgia laws that had to be thrown out makes it clear that old ways die hard.

### **6. What happened to the "great movement" of Negro emigration that George saw commencing? 354-55**

Emigration from some parts of the old South was made very difficult at times by organized planters wanting to keep their cheap labor and enforce peonage. If George means migration to the northern USA, that was not massive until considerably later.

The recent development of civil rights in the South, coupled with labor-saving machinery, has changed the preferred strategy of the landowning oligarchy. Rather than keep cheap field hands available, the landholder now would just as soon see them move away, to be replaced by the more docile, non-voting machines, trees, and cattle that are taking over southern farmlands. The landowning oligarchy still holds the high cards.

### **7. What sustained wage rates in the U.S. in spite of land monopoly? 356**

The frontier. A few years later Frederick J. Turner incorporated George's idea (without credit) in his famous essay "The Frontier in American History" (1890), and other works. It is known as the "safety-valve theory," the frontier being the safety-valve to relieve excessive pressure on wages in the east.

Turner also said the frontier had shaped the American character. On p.390 we find George saying exactly that: "All that we are proud of in the American character, ... " etc.

George in fact inspired many leading thinkers, doers and writers of the next two generations. For a lot of detail on this see Eric Goldman, *Rendezvous with Destiny*.

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### Chapter 3: "Claim of Land Owners to Compensation"

1. Why do most men not recognize the wrong in existing institutions? 358; cf. also 368

Here for the first time we see a touch of frustration that George has not shown before. "... the majority of men do not think. With them whatever is, is right, until its wrongfulness has been frequently pointed out, and in general they are ready to crucify whoever first attempts this."

He might better have stifled such thoughts, but even Jesus cried on the cross. Generally, George bounces back with incredible optimism for the development of human capacities to think.

2. What was Mill's plan to compensate landholders?

Compensate them for present value, and keep all future increases for the state.

How does George view it? 360-61

Interest on the funds required to buy land would exceed the present rent. Here George is stating in words exactly what the equations passed out in class show algebraically: the carrying costs of land exceed the current rent.

George also gives a strong clue to what he means by "speculative rent," a term we have found to be fuzzy before. He means the current cash flow plus the excess required to pay interest on the value-which equals the current increment in value.

He does not mention Alfred Russel Wallace's plan, which is to base compensation just on capitalized current income. He would presumably have liked that better. Indeed, George and Wallace became firm allies.

On p.365 George suggests a view not too distant from Wallace's, in fact. "Let the land holders have ... all that the possession of the land would give them in the absence of the rest of the community." That would be about zip. On urban fringes, construing that generously, one might say that only the "development value" of suburban farm land should be taxed, and the pure farm value left untouched. Britain used that concept in 1946 when it socialized the "development value" of suburban land (a policy it then gradually abandoned).

3. How does George view those who think landholders deserve compensation? 362

They "still wear the collar of the Saxon thrall, and have been educated to look upon the vested rights of land owners with all the superstitious reverence that ancient Egyptians looked upon the crocodile."

4. How much compensation was paid to slaveholders at the time of the Emancipation Proclamation? 362

None, although many people wanted to. The superstitious power of property rights to blind people to obvious wrong is the theme of *Huckleberry Finn* (1884).

The Proclamation only purported to abolish slavery in states in rebellion and did not apply in border states nor in states then occupied by Union forces; and it had no force in the states still in rebellion, either. The 13th Amendment is the more telling document; it does not forbid compensation. Congress can do nearly any fool thing it pleases, and often does. None was, however, actually paid. After the bloodiest war in American history, Congress was in no such mood. War radicalizes people, at least for a while. The Radical Republicans who controlled Congress, 1864-70, came near to confiscating the lands of the southern oligarchs, as well.

The British Government, as George mentions, did compensate slaveholders in the BWI. Presumably it would have done the same thing in the southern states, had its troops succeeded in putting down the American Revolution.

5. Is George committing an ethnic slur on p.366?

No, he is quoting someone else in the vernacular of the times, just as Mark Twain did in *Huckleberry Finn*. George might better have used quotation marks, and if writing today probably would. It would be hard to accuse anyone with George's views about equal rights of ethnic bias, however. If he had any it was anti-Chinese, an attitude that permeated the labor movement in San Francisco. However in a notable incident he once lost an election by refusing the support of labor leader Dennis Kearny because of Kearny's overt bigotry.

6. Did anyone else ever propose to go farther than George and confiscate improvements as well as land? 367

Karl Marx, Nicolai Lenin, Mao-tse Tung, Bela Kun, Erich Honecker, et al. But it is not only from the extreme left that such confiscation proceeds. Our present tax system, framed and promoted by conservatives, confiscates both capital and labor routinely, to protect land from direct taxation. One of the great ironies, not without its important lessons for us, is that the extremely conservative Chicago School economists strongly favor taxing capital and its income. This tenet was made part of Chicago orthodoxy by the founding father of the Chicago School, Professor Frank Knight. Like J.B. Clark, whom he followed faithfully, Knight's oft-professed purpose was to undercut Henry George. George Stigler, one of Knight's disciples, has professed the same purpose.

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#### Chapter 4: "Private Property in Land Historically Considered"

##### 1. Has any society ever recognized common rights to land? 370-84

Many societies have, including our own at various times. The illustrations George gives are generally valid. You should know something of the historical role of Lycurgus, Solon, Licinian Laws, Gracchus, Roman Law (see 372n), the Teutonic mark (as in Ostmark, aka Austria), latifundia, fief, primogeniture, entail, infeudation. Does it strike you as harsh to be asked to know or look up scholarly and historical references in a writer so learned as George? If so, give some thought to this: George never finished high school. Should you know as much history when you graduate from this college? You may, but only if you get turned on as he did. Motivation works wonders.

The "military frontier" is a useful concept. Historically, nations used to lure families to frontiers by giving them land and freedom. Hence conditions of equal landholdings were found on frontiers, while lands safe inside the core concentrated into a few hands. Today, however, soldiers are available cheaper: we enlist foreigners into our military service by offering them American citizenship. Rome did the same in its declining years: an inauspicious precedent.

Andrew Bisset, *The Strength of Nations*, cited at 384n, had a deep effect on George's thinking.

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#### Chapter 5: "Of Property in Land in the United States"

##### 1. What is distinctive about placer mining? 385 (Placer rhymes with gasser, and is a corruption of the Spanish plaza.)

It is a simple hand operation, requiring no machinery and little space. Hence, anyone could do it.

##### 2. What were the "pueblo lands" of San Francisco? 385-86

City-owned lands, set aside originally under Spanish law, to provide for future population growth. (Pueblo = city.)

##### 3. What happened to San Francisco's pueblo lands? 386

They were "reduced to private ownership in large tracts." It is a good guess that they went to the wrong people, at sweetheart prices. George thought the only way the public can get its due when public lands are privatized is to subject them to continuing taxation, which rises as their value rises.

Certain cities, notably Los Angeles, also have ancient "pueblo rights" to water. One LA Council tried to give the people's rights away to their friends, too, in the spirit of the times, but finally was forced to take them back. Then it created the LA D.W.P., which has waxed mighty.

##### 4. How were the placer lands treated? 386

As common property, subject to use on a strict "use it or lose it" basis, in limited quantity. Title remained in the government; individual holdings were "possessory" claims only. "The essential idea of the mining regulations was to prevent forestalling and monopoly." Claims were about 10' x 10' - the diggings looked like anthrills. Claims expired when the miner left. Today in the Amazon there is a similar gold strike followed by a gold-washing operation with a similar proliferation of minute possessory interests and an ant-heap of labor-intensive activity. If you ever get a chance to see the documentary film on TV, it is mind-blowing.

##### 5. What is "patenting" of lands? 387

Securing a title in fee simple from the government.

##### 6. How does a "possessory title" differ from a fee-simple title to land? 387

A possessory title is ownership contingent on occupation of land, and ends when occupation ends. "Possession" seems to imply power and therefore permanence, and sometimes it works out that way; but legally it only implies temporary occupation, and is not permanent unless in "fee simple."

Possessory interests are often in a state of evolution as they "ripen" into de facto fee simple titles through custom and political pressure. Holders of possessory titles are sometimes in a strong political position to extend their claims. Settlers tend to get ahead of formal systems of land titling, and occupy and use natural resources. "Squatters' rights," for example, were possessory interests the government finally converted into fee

simple titles under laws like the Preemption Act of 1841. The Mormon pioneers settled the Mormon states well before the Feds showed up to legitimize what they had done, and both sides

agreed on some legal fictions that let the Mormon pattern of village living be passed off as complying with the residence requirements of the Homestead Act.

Appropriative water "rights"-licenses, actually-and broadcasting licenses are other examples of possessory interests ripening into permanent interests having the de facto characteristics of fee simple titles. Many aircraft landing rights, on the other hand, failed to be permanent and were lost when airlines were deregulated in the Carter Administration.

There are many other examples of squatters' being evicted, even after many generations. Some of our ancestors came here from the British Isles because the "clearances" and "enclosures" drove them from their ancestral lands. In American cities today, homeless squatters are being evicted from tents and cardboard box shelters.

The difference between possessory and fee simple titles may be summed up in resale value. People buy fee simple titles as "investments," a word used to imply that future resale value will equal or exceed the current price. This gives rise to absentee ownership and speculation. Possessory interests on the other hand are not for trafficking, they are for use only.

#### 7. How did the early settlers of New England differ from those of Virginia and to the South? 388

New England settlers held land more in common. In fact they did more than George relates here: they taxed land according to its value, just as George advocates. Wm. Bradford's History of Plimoth Plantation describes the process in enough detail to make it clear that when the Puritans divided land into private parcels they taxed it "as ye valuation wente," in Bradford's antique spelling. They divided land in equal shares, but "he that got a better" was taxed to compensate him that got a worse. "This gave generally good contente," according to Bradford. One result of this policy was dense settlement, urbanization, and rapid growth, both in New England and in areas which New Englanders settled: western New York, Ohio and Michigan, notably, where economic development proceeded faster than in states settled on the aristocratic basis.

George is making a different point here, and in the process understates the degree to which his policies had already some partial application and the validation of experience.

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### **Book VIII: "Application of the Remedy"**

#### **Chapter 1: "Private Property in Land Inconsistent with the Best Use of Land"**

1. If Book VII dealt with equity and distribution, what does Book VIII deal with?

Efficiency and allocation.

2. What, rather than fee simple title in perpetuity, is necessary for the improvement of land? 397

Security for the improvements.

3. Where are costly buildings erected on leased ground? 399

New York and London are cited, but every city in the world could be added. Baltimore, Honolulu and Irvine are rather extreme cases where leaseholds are the rule rather than the exception. Rockefeller Center is a famous case from New York City. The Rockefellers leased the ground from Columbia University for many decades.

4. Who said "The magic of property turns sand into gold"? 399

Arthur Young, an 18th Century traveler and commentator on Flanders. Young's ideas have been lifted, in our times, by Garrett Hardin who, as we saw earlier, also rephrases Malthus for modern readers.

5. How does George criticize Young? 399

He confused the incidental with the essential. It was not property in land, but security of improvements, that turned Flemish sand into gold.

6. Does fee simple title insure the best use of land? 401

It allows speculation, which often prevents the best use. George might have said much, much more on this key point. He might also have added that "rent-seeking," i.e. the effort to acquire fee simple title, often leads to perverse land uses. The premature development of western waters is a splendid case in point; so is premature broadcasting on submarginal channels.

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#### **Chapter 2: "How Equal Rights to the Land May Be Asserted and Secured"**

1. How does George propose to make land common property? 406

To appropriate rent by taxation.

## 2. How about other taxes? 406

He would abolish most of them. Hence the slogan "single tax," which came into use later. The slogan greatly oversimplifies the proposal, however.

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### Chapter 3: "The Proposition Tried by the Canons of Taxation"

#### 1. How will the rent tax affect incentives to produce? 408-14, esp. 413

It will not check production, but tend to increase it by destroying speculative rent.

In fragments here and there George makes it clear that the tax is to be on latent rent, which is at any time a fixed amount independent of actual rent paid or realized through use. The base of the tax is to be land value. In short, he is talking about the existing property tax ex personal property and improvements. That is what he means when he says the (administrative) machinery is already in place.

#### 2. Is the tax easy and cheap to collect? 414-16

Land cannot be concealed, it lies out of doors. The existing machinery of assessment and collection need not be expanded, but may be contracted. Just raise the tax rate, and stop assessing improvements and personal property (which is 90% of the assessor's workload anyway).

Dispense with the machinery for collecting all other taxes. Alternatively, if we can't live without the IRS, others have suggested modifying the income tax to exempt wages/salary income, offset capital income taxes by means of investment credits, and raise the rate on what is left: land incomes.

Were it not for George and his allies in Congress we would probably have an income tax today that exempts land income. There were six Georgists in the U.S. House of Representatives in 1894 when the income tax law of that year was passed. Madison and Hamilton had aborted any federal direct tax on land by inserting in the Constitution a requirement that any such tax must be apportioned among the states by population, a provision that assured the opposition of the more populous states. The Georgists succeeded in getting Congress to include land rents in the coverage of the 1894 Act, forcing the U.S. Supreme Court either to reject the Act, or allow the direct taxation of land incomes. The Court chose the former. After 19 years, this led to the 16th Amendment of 1913, which allowed direct taxation of income from all sources, including land. Indeed, the first income tax legislation limited the tax entirely to property income. One of those writing the law was Congressman Henry George, Jr., of Brooklyn.

#### 3. Is the land tax "certain"? 416-18

Probably more so than the other taxes described, but this section is mostly rhetorical and would require support.

#### 4. Is the tax "equal"? 418-21

At last we see a credit to Adam Smith, whose canons these are.

Excise taxes (assuming they are shifted forward) fall unequally on breadwinners with large families, which only a Malthusian would regard as just. There are lots of them, but George has already dealt with their position.

The personal income tax allows an exemption for each child. The exemption used to be high enough to notice, but time has eroded it away.

George's main point is that labor income should not be taxed equally with land income, since labor income is earned and land income is not. The landholder as such takes wealth from the general stock, returning nothing.

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### Chapter 4: "Indorsements and Objections"

#### 1. What prior economists does George cite in favor of taxing land values? 422ff.

Ricardo, McCulloch, Mill, Fawcett, Quesnay and Turgot. He should have added Adam Smith. Later researchers have dug up many lesser writers who anticipated George, and a number of later economists who go a long way with him. Many of those are active today, and are surveyed and cited in M. Gaffney's article, "Two Centuries of Economic Thought on Taxing Land Rents."

#### 2. What is McCulloch's reservation. How does George answer it? 425

It may be hard for assessors to distinguish land from improvements.

See 425-26 for the response.

#### 3. What is the political objection? 426

That those not holding land will vote for extravagances if they are not taxed. E.R.A. Seligman later took up this point and made much of it.

George's answer on 427 is as follows. First he points out that the present system of indirect taxes leads voters to support extravagance because they do not know what they are paying, and there is no class to oppose extravagance. Second, land taxes would force division and increase the number of conscious taxpayers.

The most telling part is his observation on the motivation of good citizens and voters. "... it is the consciousness of feeling that he is an integral part of the community; that its prosperity is his prosperity, and its disgrace is his shame." George's inspirational genius is his ability to articulate the best side of human nature.

#### 4. Why has the land tax not already been adopted, if it is so good? 427

Those on whom it falls cannot shift it. They are conscious of their interest, organized and powerful. Landownership yields them discretionary income with which they dominate politics, control and subvert churches, colleges, and think tanks. Their interests are fixed and stationary, so they form oligarchies that dominate local politics.

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### Book IX: "Effects of the Remedy"

#### Chapter 1: "Of the Effect upon the Production of Wealth"

##### 1. Why would a community wish to foster private enterprise? 435

"Every productive enterprise, besides its return to those who undertake it, yields collateral advantages to others."

##### 2. How can shifting taxes from labor and capital to land diminish the burden on productive enterprise?

A tax on land values merely changes the identity of rent-receivers (from a minority of individuals and corporations, to the whole community), but does not raise the cost of using land. It obviates taxes conditioned upon production and exchange, which diminish supply, raise prices, lower real wages, and diminish demand.

"The more that labor and capital produce, the greater grows the common wealth in which all may share. And in the value or rent of land is this general gain expressed in a definite and concrete form. Here is a fund which the state may take while leaving to labor and capital their full reward. With increased activity of production this would commensurately increase."

##### 3. How would the single tax affect the land market? 436 ff.

The selling price of land would fall; speculation would stop, and land now withheld from use would be thrown open to improvement, but on the frontiers and in the well-settled districts. "The man who wished to hold land without using it would have to pay very nearly what it would be worth to any one who wanted to use it." (437)

This would apply to agricultural, mineral, and urban land.

"Everywhere that land had attained a value, taxation, instead of operating, as now, as a fine upon improvement, would operate to force improvement."

##### 4. How would the single tax affect small entrepreneurs? 438

Farmers, builders, manufacturers would not have to pay out large sums, or take out huge mortgages, in order to get access to land. They would pay for the site year to year in taxes; but they would not have to pay taxes on their labor and capital.

##### 5. How would the single tax affect the labor market? 438-439

"Competition would be no longer one-sided. ...; employers would everywhere be competing for laborers, and wages would rise to the fair earnings of labor. For into the labor market would have entered the greatest of all competitors for the employment of labor, a competitor whose demand cannot be satisfied until want is satisfied-the demand of labor itself." Laborers can "become their own employers upon the natural opportunities freely opened to them by the tax which prevented monopolization."

Unemployment and depressions would vanish; "demand would keep pace with supply, and supply with demand; trade would increase in every direction, and wealth augment on every hand."

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#### Chapter 2: "Of the Effect upon Distribution and Thence upon Production"

##### 1. How would George distribute the benefits of public spending? 440

The following is implicit, but important. Some benefits, such as schools, would be like social dividends, of equal value to all. Many public works are of more value to some than others, because they serve some lands and not

others. But these benefits would be recaptured by land taxation. The only benefits that would stay with the public would be those distributed equally.

## 2. Did George see any hope for the majority of men who do not think? 444-45

He sees prosperity and justice as removing the mental blocks that now chain most people to mediocrity, resistance to learning and progress, and general blockheadedness.

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### Chapter 3: "Of the Effect upon Individuals and Classes"

#### 1. What future does George see for the rate of interest? 448

He mentions only in passing that the effect of land taxation is to make interest rates rise. He would have leaned much heavier on this point had he foreseen how seriously people would come to take the forecasts of Mill, Marx and Keynes about interest rates falling to zero.

George correctly foresaw that taxing land would abate the overpricing of land that at times forced rates of return down toward zero. How do we know he was correct? Because George's propaganda bore fruit, even though not in the 100% manner that he favored. Americans turned to the property tax more heavily than ever in the 40 years after he wrote, and assessors were under a new pressure to value buildings lower and land higher. Many of George's leading champions were assessors, who wrote new manuals on land assessment and led a very practical movement to stretch the latitude of assessors in the direction of upvaluing land and downvaluing improvements. They also followed the election returns. In 1916, a "pure single tax" Constitutional Amendment won 45% of the votes in California. Elected officials do not ignore large minorities, but shade their activities to mollify the minority. In 1934, Upton Sinclair nearly won the Governorship of California, on a platform that included a lot of Henry George.

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### Chapter 4: "Of the Changes That Would Be Wrought in Social Organization and Social Life"

#### 1. Does George see self-interest or greed as the motor of human progress? 457-72

No, that is a Chicago School perversion. Here is an inspiring sermon on what people do to win respect.

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### Book X: "The Law of Human Progress"

#### Chapter 1: "The Current Theory of Human Progress- Its Insufficiency"

##### 1. What is the difference of kind that distinguishes the lowest societies of mankind from the highest animals? 476

The power of improvement, which makes man the progressive animal.

##### 2. Why do some groups of men show this power more than others? 477

Neither race, nor location and climate, are consistently associated with superior achievement. "All these differences are evidently connected with social development."

##### 3. Where does George depart from Darwin, Spencer, and the social evolutionists? 478

George does not see gradual race improvement through natural selection as a significant force compared with social development. George also objects to the fatalism, materialism and predestinarianism of evolutionists like Darwin, Huxley, Spencer and Marx.

George's position was greatly strengthened by his alliance with Alfred Russel Wallace who had discovered and published the theory of natural selection simultaneously with Darwin.

##### 4. What does natural selection fail to explain? 485

The petrification and decline of civilizations. "The earth is the tomb of dead empires, no less than of dead men." Arnold Toynbee devoted his life to illustrating that theme in his many-volume A Study of History. (Toynbee's father, ironically, had died of a stroke suffered while delivering a lecture attacking George.)

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### Chapter 2: "Difference in Civilization-To What Due"

#### 1. What determines national character? 494

"Now, it is this body of traditions, beliefs, customs, laws, habits, and association, which arise in every community and which surround every individual-this 'super-organic environment,' as Herbert Spencer calls it, that, as I take it, is the great element in determining national character. It is this, rather than hereditary transmission ..." This holds for the mental even more than for the physical constitution of man (495).

2. Through all this nature/nurture controversy, what is "the great fact with which we are concerned"? 504

"That differences in civilization are not differences which inhere in the individuals, but differences which inhere in the society." I.e., its "web of knowledge, beliefs, customs, language, tastes, institutions, and laws."

"Though it is this that often offers the most serious obstacles to progress, it is this that makes progress possible. ... This is to the race what memory is to the individual. ... Human progress goes on as the advances made by one generation are in this way secured as the common property of the next, and made the starting point for new advances."

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### Chapter 3: "The Law of Human Progress"

1. What causes progress? 507

"Mental power is ... the motor of progress, and men tend to advance in proportion to the mental power expended in progression ... (which is) what is left after what is required for non-progressive purposes ... (which are) maintenance and conflict.

Equality (meaning equal opportunity, or justice), is necessary to minimize conflict. (Cf. today's slogan "If you want peace, work for justice.")

Filling out tax forms, lobbying in Albany and Washington, protecting turf, bureaucratic infighting that wastes so much professorial time, applying for grants, all these silly zero-sum games we play by choice or necessity, these waste our powers while life slips by and we miss our destinies.

2. How does George sum it up? What is the law of progress? 508

Association in equality is the law of progress.

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### Chapter 4: "How Modern Civilization May Decline"

1. How may modern civilization decline? 528

From unequal distribution of wealth and power, causing corruption of political democracy with demagogues serving the rich while catering to the masses. The nouveaux riches have all the power of an aristocracy, with none of its virtues (534).

Whence shall come the new barbarians? From the slums. How shall learning perish? Men will cease to read (538). Art will become decadent; crime and suicide increase; religion will die, and nothing arise to take its place. Shall we put that into an econometric model? Not likely, but we know those are more important matters than most of what does go into the models, and all of what comes out.

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### Chapter 5: "The Central Truth"

1. Why does the reform George proposes qualify as a 'true reform'? (545)

"It will make all other reforms easier."

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Conclusion: "The Problem of Individual Life"

1. What is the problem of individual life?

Justice fails to have its reward, and injustice its punishment.

2. How does the inquiry conducted in Progress and Poverty illuminate it?

In social life, justice has its reward, and injustice its punishment. This gives the hope that the Creator has made it so also in individual life. This implies that there must be a continued existence after death.

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