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THE ECONOMICS OF FREEDOM

formerly titled

Fundamental Economics

LESSON SUMMARIES

THE PROBLEM

Lesson I

"He would have been a rash man who, when Augustus was changing the Rome of brick to the Rome of marble, when wealth was augmenting and magnificence increasing, when victorious legions were extending the frontier, when manners were becoming more refined, language more polished, and literature rising to higher splendors -- he would have been a rash man who then would have said that Rome was entering her decline. Yet such was the case. And whoever will look may see that though our civilization is apparently advancing with greater rapidity than ever, the same cause which turned Roman progress into retrogression is operating now .....

There is a vague but general feeling of disappointment; an increased bitterness among the working classes; a widespread feeling of unrest and brooding revolution. If this were accompanied by a definite idea of how relief is to be obtained, it would be a hopeful sign; but it is not.

There is no mistaking it -- the very foundations of society are being sapped before our eyes, while we ask, how is it possible that a civilization such as this, with its railroads, and daily newspapers, and electric telegraphs, should ever be destroyed? While literature breathes but the belief that we have been, are, and for the future must be, leaving the savage state further and further behind us, there are indications that we are actually turning back again toward barbarism .....

Whence shall come the new barbarians? Go through the squalid quarters of great cities, and you may see, even now, their gathering hordes!"

This prophetic warning, so uncannily descriptive of our nation's current peril, was written nearly a hundred years ago by the American economist and social philosopher, Henry George. George was not content, however, merely to predict doom; he also undertook to show how it can be averted. This course will be primarily devoted to the study of his analysis and proposals for constructive action. It is offered as a public service in the belief that although the time is late, an enlightened citizenry can yet reverse the direction of our national life, and save America from the fate of Rome.

Born in 1839 in Philadelphia, George went to sea at the age of sixteen, and later learned to set type. He tried his hand as a prospector at the tail end of the California gold rush, and remained in California for twenty-two years, working as a printer and eventually as a newspaper reporter and editor. During most of this period his life was a constant struggle against poverty, even though he managed to achieve a degree of local influence and reputation.

As George witnessed the swift rise of population and productivity on the West Coast, he pondered the ironic fact that concurrently with this rapid growth most people found it ever more difficult to make a living. He finally set himself the task of resolving this enigma, recognizing that it was in no wise unique to California -- that California was a sort of microcosm in which one could watch at that time the telescoped unfolding of universal social and economic processes. Like Adam Smith and most other pioneers in the field, George had no formal training in political economy, but schooled himself through independent reading and observation. His study bore fruit in PROGRESS AND POVERTY, a work which many feel has never been equalled for sustained logical development and literary power. Published in 1879, this book, the best-selling economic treatise of all time, was soon recognized as a classic, and made its author famous. The rest of his life was spent in writing other books, lecturing, and traveling to disseminate his ideas abroad. He was twice induced to run for mayor of New York City. Many historians believe that on the first occasion (in which he outpolled Theodore Roosevelt, also a candidate for the mayoralty) he actually received a plurality of the votes cast but was "counted out" by the Tammany machine.

Despite the obvious contemporary pertinence of George's terrifying vision of how modern civilization may decline, since it is generally

acknowledged that we in the United States live today in an affluent society, the question is sometimes raised as to whether his inquiry into poverty has relevance to present conditions in this country. True, we hear a great deal about poverty, and the federal government has embarked upon massive and costly programs to relieve it. Yet it does not seem to be a general feature of the economy as a whole, but rather something which exists among people outside the mainstream -- the culturally deprived who have no marketable skills; aged pensioners and others who must depend upon fixed incomes eroded by inflation; victims of technological unemployment; and inhabitants of "poverty pockets," i.e., geographical areas which have lost their economic base due to the exhaustion of natural resources, the drying up of markets because of competition from new and better products, etc.

Even allowing for these exceptions, employment is at an all-time high, and the demand is great even for unskilled labor. When, for example, in New York City, jobs for domestics at $125 a week, for messengers at $95 a week, for porters at $100 a week, and for file clerks at $95 a week are going begging, it is easy to jump to the conclusion that anyone who is willing and able to work can make a decent living. Modern transportation has increased the mobility of labor so that few able-bodied persons need remain in those atypical areas where opportunity is not available. Furthermore, unemployment compensation, public housing, Medicare, aid to dependent children, and scores of other provisions which in George's day existed barely or not at all, now cushion the impact of destitution so as to make it often far less glaring and drastic than was once the case.

Yet we do not need to dig very deep below the surface to realize that, in spite of all that has just been said, poverty is still a problem and a major one. In the first place, mental and physical disabilities engendered

by poverty make it difficult and often impossible for many people to take advantage of the opportunities which now exist. Ignorance, lassitude, improvidence, despair -- these are frequently cultural patterns conditioned by generations of material deprivation, and one cannot expect them to be abandoned overnight. Symptoms of poverty, they also sustain and reinforce it.

Secondly, and perhaps even more important, our general prosperity may be more apparent than real. Money wages are high but nationwide the purchasing power of the dollar is lower than it has ever been. Our high level of employment is at least in part the result of monetary inflation and of policies and institutions (child labor laws, compulsory retirement, the draft, the "closed shop," welfare, restrictions on immigration, etc.) which keep a substantial segment of the potential labor force out of the labor market. The employment slack is taken up in large measure by jobs which are either directly or indirectly related to military needs. While such jobs may be essential to defense, dependence upon military payrolls is scarcely conducive to a strong economy.

The various forms of government aid which provide minimal security against extreme want are financed by onerous taxes which reduce the incentive to produce wealth, and by deficit spending which has created a heavy and oppressive lien against the earnings of future generations. Many thoughtful persons question whether it is either economically sound or morally just to mortgage the future in this way.

THE MARKET ECONOMY

Lesson II

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The Command Economy and the Market Economy

Simply stated, political economy is the study of how man earns his living. Formally stated, it is the discipline which treats of the production and distribution of wealth.

A distinction is made in economic theory between two fundamental types of economic order. In practice, the distinction is a relative one, since neither type is anywhere found in an absolutely pure form. The distinction is useful, however, for purposes of analysis and comparison.

In a command (or planned) economy, economic decisions are made by some central political authority. This authority may be autocratic, as in the Soviet Union or Red China, or democratic, as in Great Britain or Sweden. In either case, however, production and distribution are controlled by government planning rather than by the forces of supply and demand.

In a market (or free) economy, decisions are made by individuals as to what goods and services they want and are willing to pay for. These decisions are reflected in the process of exchange which, guided by the interplay of supply and demand, determines what is produced and how it is distributed.

Professor Ludwig von Mises, the distinguished Austrian scholar, contends that a command economy is not really a true economy at all, since its decisions are inevitably made according to criteria which

are political rather than economic. He insists that apart from the market, where buyer and seller meet for mutual exchange of goods and services, there is no rational way of calculating from an economic standpoint what goods in what quantities should be produced and how they should be distributed. Even where decisions are not consciously based upon military, administrative, or other obviously non-economic considerations, they are governed by the subjective will of the political authority, since in the absence of a market he has no objective way of knowing what people want and need -- at least no way of assessing the relative weight of conflicting wants and needs -- except in terms of his own rude assumptions and personal preferences. Therefore, his allocation of manpower and resources must of necessity be arbitrary.

Mises holds that the only reason rational economic calculation in command economies can occur at all, is that none of them exists in total purity or isolation. Elements of the market, however circumscribed and minor, operate within them to varying degree, and their planners can always look abroad for empirical data to nations where the market operates with relative freedom. It is only thus that they are saved from utter chaos. (See Ludwig von Mises, Human Action [New Haven: Yale University Press, 1949], chap. 26.) It is perhaps worth noting that in Red China, which doubtless comes as close as any nation to having a pure isolated command economy, arbitrary planning has repeatedly resulted in widespread famine accompanied by enormous surpluses of useless goods.

Whether or not there may ever be valid political reasons for interfering with the free play of the forces of supply and demand, is, of course, a question which must be decided on political and not on economic grounds. Our purpose is to examine the way in which economic forces operate if left to themselves. Only as this is done can intelligent

judgments be made as to how they should be interfered with, if at all. Therefore, we shall address our study to the market economy, recognizing that even in the United States its working is in practice distorted by the presence of command elements.

As we proceed with our investigation, it might be well to bear in mind the following questions concerning the market economy: Can it work harmoniously, or are economic dislocations inherent in it? Does an unregulated market give rise to monopolies? Are wide disparities of income inevitable where the market operates without restraint?

Economic Science and Natural Laws

Voltaire once remarked that "It would be very singular that all nature, all the planets, should obey eternal laws, and that there should be a little animal, five feet high, who in contempt of the laws could act as he pleased, solely according to his caprice." Natural laws may be thought of as predictable patterns or sequences of cause and effect. The purpose of any science is to discover them and investigate their workings, so that instead of being crushed by them man can use them to achieve his ends. Whatever more he may be, man is, after all, a part of nature; therefore it is not surprising that his conduct should exhibit predictable patterns and sequences analogous to those found in the rest of the physical universe.

The fact that human beings differ widely from one another has led some social scientists to conclude that there is no such thing as human nature, but if this were true in any thoroughgoing sense it would exclude the very possibility of social science. The laws that govern human behavior must spring from the generic structure of human personality itself.

Because the ~~human~~ personal equation makes it difficult to study human

behavior objectively, and because that which is under observation cannot be so readily isolated, controlled, or subjected to quantitative analysis as can purely physical data, the social or behavioral sciences, of which political economy is one, are frequently distinguished from the exact sciences. And indeed, as Henry George is careful to point out, political economy "can never predict exact results but only tendencies." (Progress and Poverty [Hogarth abridgment], xii.) The prestige of the exact sciences is such today that many social scientists have abandoned the grand effort to discover and synthesize broad tendencies so as to arrive at integrated understanding, and instead devote themselves to the mere collection of statistics on trivial and minute topics. The narrowness of their range permits a degree of precision which may be denied to those who seek a wider vision. Yet their results, while they may be conclusive as far as they go, are for the same reason apt to be meaningless and inconsequential. In our study we shall take the bolder approach, mindful of the adage: "Nothing ventured, nothing gained."

Three Basic Economic Laws

Free market economic theory rests upon the assumption that there are natural economic laws, the discovery and correlation of which constitutes its task. Economic laws are quite different from statute laws, which, like customs, can change from time to time and place to place. Economic laws resemble instead the laws of mathematics, physics or chemistry in that they hold good everywhere and at all times, regardless of governments or other human institutions. Just as no government can nullify the law of gravity, no government can nullify the law of supply and demand. Both laws can be defied, although scarcely with impunity; neither can be nullified. Economic laws are natural in the sense that they arise spontaneously from human nature;

statute laws are man-made in the sense that they are consciously contrived. To the extent that statute laws are in accord with human nature and the characteristic behavior patterns ("laws") which arise therefrom, they will be realistic and successful. To the extent that statute laws ignore human nature and its laws, they will be futile and pernicious.

Let us now take a look at three important economic laws. Like all economic laws, they stem from the mutual relationship of two psychological facts or fundamental axioms concerning human nature. The first of these (which corresponds to the physical law that motion seeks the line of least resistance) is that man seeks to gratify his desires with the least exertion; the second is that man's desires are unlimited. It should be remembered that these axioms refer to general characteristics of human nature taken as a whole, not to the ideo-syncratic or exceptional.

1. The Law of Supply and Demand: This law states in its simplest form that people do not continue to manufacture and offer for sale (supply) things which people do not want (demand) or quantities in excess of those which people want. On the other hand, when people demand something which is not supplied, or more of something than is supplied, supply tends to materialize and/or increase. It is important to note that in economics "demand" means <u>effective</u> demand, that is to say, sufficient satisfaction must be offered in exchange for what is demanded. A hungry man will not cause more corn to be grown or more bread to be baked merely because he is hungry. He must be able to offer something of value in exchange before what he demands is supplied. Assuming that no extraneous motives or conditions are present, this law holds good for all rational human beings.

2. The Law of Competition: Given the same degree of scarcity, /goods which offer equal satisfaction will tend to sell at the same price. For example, one would not expect to find two pairs of shoes of equal quality and fashion selling at different prices in similar circumstances and locations. The seller of shoes, in obedience to the economic law of competition, knows that if he puts his prices too high his customers will shop elsewhere. If he puts them too low he will attract more customers but his return will not be enough to meet his expenses and allow him a profit. Prices in the competetive marketplace will not always be exactly the same for similar goods at the same time and place, but they will tend to be the same, for the pressure of the law of competition is always present. Governments may impose regulations to fix the price of shoes and to punish people who sell at a different price. But people will then meet secretly to buy and sell shoes at prices governed by the natural laws of supply and demand and competition. When prices are fixed by governments, the free-market price is called the "black-market" price. Really, it is the natural price -- whatever ethical view we may take of such transactions.

3. The Law of Diminishing Returns: When land, labor and capital are combined in production, if the best return is to be obtained each factor must be in the right proportion. Taking a retail shop as an example, it will be seen that too little space (land) in which to serve the customers would result in a loss of business, even if there were the right amount of staff (labor) and stock (capital). It would be equally uneconomic to have too much space. Similarly, although the space and staff might be in the right proportions, too little stock would mean a loss of sales and too much stock a waste or misuse of captial. An increase or decrease in the employment of any one of the factors of production in relation to the others will result in a loss

of efficiency. The point of equilibrium is known as the point of marginal use of the factors of production, and the tendency for returns to decrease in relation to input (as a consequence of applying the wrong proportions) is known as the law of diminishing returns.

THE FACTORS OF PRODUCTION

Lesson III

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Wealth

We have defined political economy as that discipline which treats of the production and distribution of wealth. In order that this definition be meaningful, we must arrive at an understanding of what is meant by "wealth." Unfortunately, this is an issue conerning which economists are not agreed. However, a sensible application of the inductive method should enable us to arrive at a definition which is not arbitrary.

When we speak of wealth, it is important to understand that we are not talking about personal or individual wealth but of the total, aggregate wealth of the community. For political economy, only items which add to the total picture may logically be considered wealth. Items which benefit an individual may be wealth for that individual, but they are not wealth in a generic sense unless they add to the aggregate. Claim of individuals upon one another, therefore, such as money, promissory notes, mortgages, stocks or bonds cannot be wealth from the standpoint of economics, since economics deals with generic phenomena and not with individual cases except as they may serve to illustrate such phenomena. Such things have an exchange value, since they represent the power of obtaining wealth as between individuals or groups of individuals, but they are not truly wealth because their increase or decrease does not affect the total sum of wealth. Any addition achieved by one individual or group is cancelled out by a

deduction to another, and the aggregate remains the same. In contrast, the addition of an automobile, a suit of clothes, or a sack of potatoes not only benefits the individual but increases the aggregate.

It is generally acknowledged that in order to be wealth a thing must have exchange value. That is to say, it must gratify human desire, and the demand for it must exceed the available supply. Cabbages ceased to be wealth in Red China when, owing to bureaucratic miscalculation, they were produced in such quantity as to constitute a glut. The residue from making woodpulp had no economic value until a desire for it arose in connection with the manufacture of synthetic fibers. Then it became wealth. Since demand is subject to cultural influence, societies may differ as to what they recognize as wealth. The followers of Mohammed regard pork with loathing; leaving aside the possibility of export, it would therefore not be wealth in a society composed exclusively of orthodox Moslems. Conversely, sheep's eyes, prized as delicacies by many Arabs, do not constitute wealth in Western countries.

All the examples mentioned (automobiles, suits of clothing, sacks of potatoes, pork and sheep's eyes), however much they may vary in exchange value as between different cultures, have two things in common. They are tangible, and they reflect the application of human effort. (Wild pigs and sheep do not become wealth until they have been caught and otherwise readied for the consumer.) Although in everyday parlance, land and natural resources are often spoken of as wealth, we are all familiar with nations such as China and Brazil which are considered poor although possessed of abundant land and natural resources. Similarly, although skills are sometimes spoken of as wealth, there are countries such as Iceland which are considered poor even though they are noted for a high general level of education. Such nations are poor because they

are wanting in material goods which human exertion has rendered capable of satisfying human wants, and for which there is a market. Obviously then, although there is a market for both land and natural resources, on the one hand, and for skills, on the other, neither can be classified as wealth since the former is not the result of human exertion, and the latter is not material. In combination, however, they are important elements in its production.

The application of labor to nature produces material objects which, directly or indirectly, minister to human wants. When such objects are sufficiently scarce to have exchange value, they constitute wealth. Wealth may thus be defined as any material thing produced by man, which has exchange value. When we say "produced by man," we mean that it has been secured, moved, combined, separated, or in other ways modified by human exertion, so as to fit it for the satisfaction of human desires.

Land and Rent

Land is one of the three factors in the production of wealth, nearly recognized by/all economists. The other two are labor and capital. Although, in contradistinction to labor and capital, land is a passive factor, this by no means minimizes its significance, for without it no production could occur at all. Some automated industries have lessened the importance of labor as a quantity, and production on a very primitive plane can take place without the use of capital, but nothing tangible can be brought into existence without raw materials and standing room on which to work them up.

Strictly speaking, from the standpoint of political economy, we were guilty of redundancy when we referred earlier to "land and natural resources." For the word, "land," as used technically in economics, incorporates all natural resources. It signifies the entire material universe exclusive of man and his products. "Mere areal extent of

land . . . does not fully define the term; for land usually is thought of as embracing land resources as well. These include soils, minerals, surface and ground waters, natural vegitation, animal life, and even the atmosphere above the surface. . . ." (Encyclopedia Americana, 1968.) The trees in a virgin forest are land, whereas the timber in a cultivated forest is wealth. When the Zuyder Zee was wholly a finger of the Atlantic Ocean, all of it was land. When the water was pumped out of much of it and contained by dykes, that portion thus made into "land" really ceased to be land and became wealth. In like manner, electrical energy, wild game, and other things which constitute land in their natural state, cease to be land when harnessed or adapted for human use.

In considering how land differs from labor and capital, there is a final very basic point which should be kept in mind. Whereas the supply of labor and capital is elastic and responds to fluctuations in effective demand, the supply of land is fixed. Especially is this true of land which, because of specific location, is uniquely suited to specific uses. Land can be neither produced nor moved to meet demand. High rates of payment attract more labor and capital, just as willingness to pay high prices for consumer goods creates an increase in their supply. With increased supply, competition forces prices down again. In these areas the free market is self-regulating. But land is a natural monopoly, and no increase in the price paid for it can bring about an increase in its quantity and thus force its price back down.

In political economy, the "distribution" of wealth refers to its apportionment among the factors which produce it. Each factor of production has its corresponding avenue of distribution. The share of wealth that goes to land is called rent; to labor, wages; and to capital, interest. "Rent is a return for permission to use that which

has not been made by man but which is used in production. Interest is a return for the use in production of things which have been made by man. Wages are the return man receives for the energies he exerts in production." (E. E. Bowen, Economics Simplified [New York: Robert Schalkenbach Foundation, 1948], p. 22.)

Some economists do not accept only three factors of production and three avenues of distribution. Some would add a fourth factor, "enterprise" (organization, management and risk-taking), the return to which is "profit." Upon examination, it may be seen that enterprise is included in the economic term, labor, and that profit (the excess which remains after business expenses have been met) may consist of rent, wages, interest, or any combination of the three. Some speak of a fifth factor, "government," the return to which is "taxes." Insofar as government renders a service, it is, like enterprise, a form of labor. Wasteful government, of course, does not produce wealth at all, but is more apt to destroy it. Taxes can only come from rent, wages and interest. Some economists would reduce the factors of production to two -- labor and capital -- maintaining that land is but a form of capital. But this lumping together of things essentially different results only in confusion. Land is not produced by man; capital is. Land is fixed in quantity; capital is not. The laws governing the returns to land and to capital are totally distinct from one another.

Rent is that part of wealth which is the return for the ownership of land. We commonly speak of paying "rent" for building accommodations or for hiring a typewriter or automobile. Economic rent, however, does not include the payment for permission to use man-made goods of any kind. It is rather confined to that share in the wealth produced which the exclusive title to the use of some part of nature gives whoever is fortunate enough to be its owner. When owner and user are the same

person, whatever part of his income he might obtain by leasing his exclusive title to someone else is rent. Another way of putting this is that rent is that part of his income which he would have to pay to someone else if he were not the owner. (Technically speaking, when land is not used to produce wealth, but is used in consumption or is held idle, it has rent potential but yields no rent per se, even if someone may be paying for the privilege of holding or enjoying it. That payment reflects no addition to the sum of wealth, but merely acknowledges a claim on the part of the owner of land having exchange value to command already existing wealth produced from other sources. However, it may be considered rent for all practical purposes.)

Labor and Wages

Political economy defines labor as all human exertion, mental and physical, directed toward the production of wealth. It should be emphasized that the term embraces not merely manual effort but also the use of cerebral energy. The architect is just as much a laborer as is the bricklayer, the steel executive as truly a laborer as the man who digs ore from the ground. Since the production of wealth is not completed until it reaches its ultimate consumer, the advertiser, the shipper, the warehouseman and the retail salesman are all engaged in labor. Broadly speaking, production may also be understood to subsume preservation and maintenance. Thus the curator and the zoo-keeper, not to mention such less exotic functionaries as the mechanic, the clothes-cleaner and the charwoman, may be classified as laborers.

However, the doctor, the lawyer, the barber, the teacher, the clergyman, the actor and the musician are not laborers. They perform useful functions by giving personal service -- helping us satisfy our desires for goods other man material. But since they are not engaged (except sometimes secondarily or indirectly) in the production of wealth,

economics does not categorize their work as labor. Neither, for the same reason, does it categorize as labor the expenditure of energy in exercise or sport, or in the creation of objects which lack exchange value.

Wages are that part of wealth which is the return for the expenditure of labor. They are not confined to hourly, daily or weekly payments, as in ordinary usage, but include salaries, fees, commissions, or any other form of payment as long as it is received for work in the production of wealth. Nor are they confined to compensation paid to those who work for others. The owner of a business enterprise earns wages when his managerial services help in the output of the product.

Capital and Interest

There is no unanimity among economists as to what constitutes capital. This is largely because of the careless tendency to introduce into economics habits of thought which properly belong to commerce and accounting. Thus anything which may be used to make a profit (land, skills, etc.) is lumped with capital, and the distinction between the factors of production is altogether lost.

If such ambiguity is to be avoided, we must limit our definition of capital to one which excludes things that fall within the other factors. If we do this, there remain only things that are neither land nor labor but which have resulted from the union of the two. In other words, nothing can be capital that is not wealth. All capital is wealth, but all wealth is not capital. Capital is that part of wealth which is devoted to production (i.e., used to produce more wealth). If we remember that production is not complete until the object is in the hands of the ultimate consumer, we may also define capital as wealth in the course of exchange. Thus, however much a desirable site or a rich vein of ore may give its possessor advantages equivalent to the possession of capital,

neither is capital because, not being man-made, they are not wealth but land. However much superior knowledge may augment an individual's income, it is not capital because, not being material, it is not wealth but part of the man's psyche.

The same item of wealth may or may not be capital, depending upon whether it is used for production or for consumption, whether it is in the course of exchange or in the hands of the consumer. An automobile used by a traveling salesman in his work is capital; used for personal purposes, it is not. A potato at the grocer's stall is capital; on his dinner plate, it is not. Tools used by a carpenter are capital; used by a hobbyist, they are not.

Interest is that part of wealth which is the return for the use of capital. It is that part of the increase in his output which the laborer is willing to pay in order that the increase occur. If the laborer uses his own capital, it is that part which he would have had to pay if it belonged to someone else. (What the consumer pays for wealth is, of course, also interest, since the wealth he buys is capital until it comes into his possession.)

Inasmuch as money is not wealth (except to the extent that the metal or paper of which it is made may have exchange value), it cannot be capital. Therefore, money itself cannot earn interest. Money simply represents a claim upon production; it does not contribute to the product. Stocks, mortgages and bonds are only certificates of ownership, and may or may not represent real capital. The return from them is interest only to the extent that they do. Interest does not include replacement of capital or wages of superintendence. Neither, from the frame of reference of political economy, does it include compensation for risk, as it does in common commercial usage. "The higher returns to capital engaged in risky business enterprises are intended to take care of losses and in the long

run bring the average return to the ordinary rate." (Gaston Haxo, The Philosophy of Freedom [New York: Land and Freedom, 1941], p. 50.)

The Wage Fund Theory and the Malthusian Theory

Production, although of a crude and primitive nature, can occur without the use of capital. Before capital comes into existence, labor must be applied to land. Capital has been aptly characterized as "stored-up labor," i.e., labor which has been given concrete form by being mixed with land, and which, instead of being dissipated in consumption, is saved and released as needed to aid in the productive process. Therefore, it is evident that capital does not employ labor; it is labor, rather, which employs capital. To say that capital employs labor is to imply that labor cannot be used until the results of labor are saved -- a proposition which is obviously self-refuting. If wages were drawn from capital, as many 19th century economists believed and many naive laymen still believe, there would be no wages where capital had not yet come into being. This erroneous belief is known as the "wage fund theory."

Since wages are not drawn from capital but from production, no real wage increase can take place unless production increases. If money wage increases outdistance production, the result is increased prices and thus no advance in real wages. Real wages and not money wages determine the general level of prosperity. Minimum wage laws, collective bargaining, a guaranteed annual wage, etc., may cause a redistribution of real wages so that those who benefit from these arrangements enjoy an increase. But unless the total sum of wealth produced increases too, their advantage can only come through reducing the wages of others.

Yet although an increase in real wages can only come through an increase in production, an increase in production does not guarantee an

increase in real wages. The Industrial Revolution, for example, represented an enormous increase in production. But labor did not benefit proportionally from this increase; indeed, Bertrand Russell and others claim that the living standard of the working population declined, although this is disputed by some authorities. (Cf. F. A. Hayek, ed., Capitalism and the Historians [Chicago: University of Chicago Press, 1954].) Progress and Poverty is in large measure addressed to the question of where the increase in production goes if not distributed as wages.

The wage fund theory and the Malthusian theory are two ways of trying to explain poverty by reference to an imbalance between the factors of production. The former attributes it to a scarcity of capital. It leads to the concept that when, due to such scarcity, interest is high, wages will be low. By thus associating high interest with low wages, it fosters the notion that there is a natural antagonism between what is best for the capitalist and what is best for the worker. Actually, as will be seen in the next lesson, wages and interest tend to rise and fall together. Poverty is often deepest where capital is most abundant and interest correspondingly low.

The Malthusian theory explains poverty by reference to the supposed inability of nature to meet the increasing demands made upon it by increasing population. Population, asserted T. R. Malthus, tends to increase faster than the means of subsistence. Nature yields less and less to the application of labor as population advances, and unless reduced by continence, the advance must ultimately reach a point where it is checked only by premature death resulting from famine, disease, vice, crime and war.

It would appear at first that all the circumstantial evidence supports this view. Hunger and malnutrition are rife in many densely

populated areas, and the oft-cited famines in India and other parts of the world seem conclusive indication that population is tending to outrun subsistence.

In point of fact, however, many of the world's most densely populated nations (e.g., Belgium, Holland, West Germany and Great Britain) enjoy standards of living which are among its highest. In countries which suffer from famines and undernourishment, land is generally not utilized efficiently and large areas are idle. In Iran, for instance, the population is only 30 per square mile. Once a rich agricultural country, its people now live in poverty, in spite of oil development. Denmark has ten times the population of Iran per square mile, yet has a very high standard of living in spite of scanty natural resources.

Per capita production is much greater in densely populated communities than in places which are sparsely settled. The increase of population increases the power to produce wealth, as a greater number of people can produce, through division of labor, a larger proportion of wealth than can a smaller number. The material resources of the globe are not even remotely near exhaustion; the bounties of nature remain largely untapped. Matter is indestructible; it is impossible to reduce the sum total of the elements of which the earth is composed. Man is not, like the animal, dependent upon a fixed supply of food. He displays unbounded ingenuity in devising ways in which energy can be released and matter transformed to sustain and nourish life.

While there may be valid arguments for population control, these arguments are essentially qualitative rather than quantitative. From an economic standpoint, mere increase in number should represent a boon instead of a disaster.

THE LAWS OF DISTRIBUTION

Lesson IV

Pp. 61-86

From what has been advanced thus far, it should be plain that poverty is not primarily a problem of production. Theories which attribute want simply to a lack of productive power will not explain it, since want appears, not merely where there is a paucity of capital or where nature is least able to respond to labor, but also where productive power is greatest and the production of wealth largest. The cause of poverty as a general social problem must therefore be sought in the laws which govern distribution. To these we now turn our attention.

The Law of Rent

Since the supply of usable land is more or less fixed, fluctuations in land value are almost entirely effected by demand, i.e., by population. Demand, in turn, is based upon the relative capacity, due to location or natural richness, of various sites to produce wealth when labor and capital are applied to them. But no matter what its capacity, land can yield no rent and have no value until someone is willing to give labor or the results of labor for the privilege of using it; and what anyone will thus give depends not upon the capacity of the land as such, but upon its capacity as compared with that of land which can be had for nothing. The best land that can be had for nothing will always be the same as the poorest land in use, since land will not be used if it is poorer than the best free land. <u>The rent of land is determined by the excess of its produce over that which the same application of labor and capital can secure from the least productive land in use</u>. First prominently set forth in the early 19th century and still generally accepted, this formula is known as "Ricardo's Law of Rent."

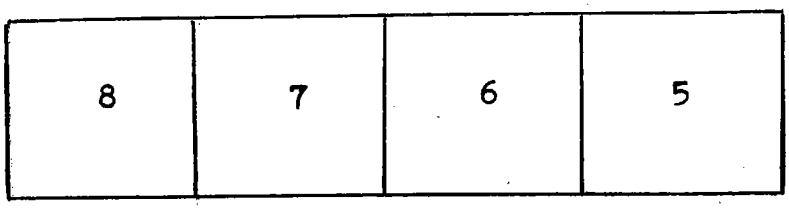
Let us be clear that when we speak of the productivity of land, we are by no means alluding merely to fertility. Productivity may arise from the presence of subsoil resources. It arises preeminently from convenient location. Thus the most productive land is never agricultural land, but rather land in the heart of population centers where the bulk of trade occurs.

The best free land or the least productive land in use is denoted in political economy by the term "margin of production." It is the area above which rent begins and below which production will not extend, hence the name "margin." (The term "margin of cultivation" was used by earlier economists when the law of rent was thought to apply only to agricultural lands. In commerce the term "margin of production" has a meaning which need not concern us here, different than the one just given.)

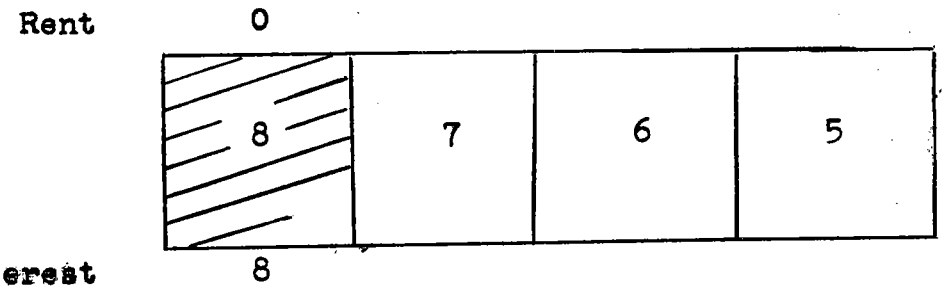
Although marginal land may be productive to the user, it has no selling or rental value in an economic sense because there is nothing to be gained from current production merely by owning it. To demand rent for such land would be to demand that labor and capital take less than could be obtained elsewhere. Labor and capital would then refuse to work such land. Land which will not produce enough to reward labor and capital at the prevailing rates is called "sub-marginal" land, and, of course, will not be used at all.

Let us illustrate the working of the law of rent by imagining the settlement of a virgin country where all land is free. For the sake of simplicity we will assume that all the settlers are equally skillful and industrious, and have the same amounts of capital at their disposal. The diagram represents this country divided into areas of varying productive potential. The figures indicate what each grade of land will yield per unit of labor and capital -- e.g., eight bushels of potatoes for one day's work, seven bushels for a day's work, etc. In reality, of course, lands

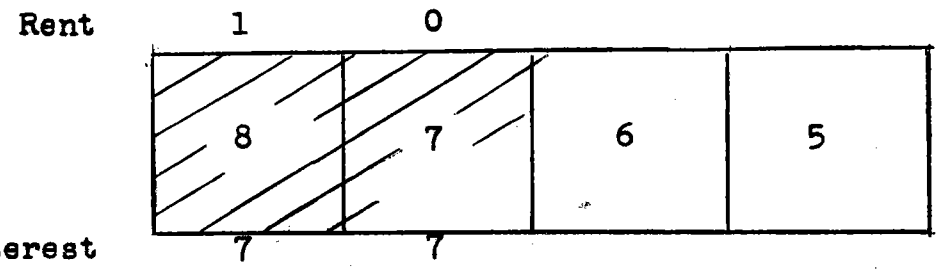
are not marked off sharply as on the diagram, but blend into and are interspersed with one another.



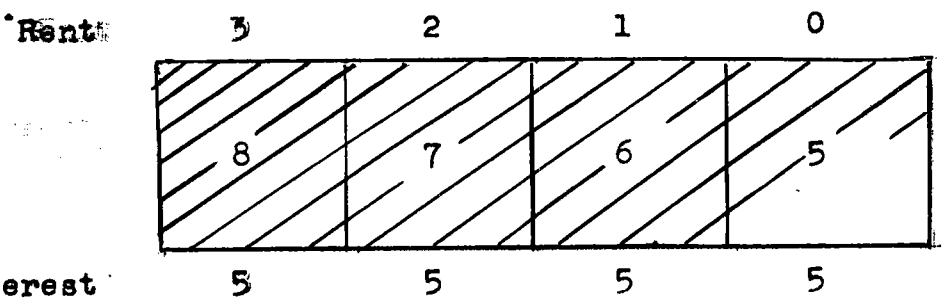
As settlers begin to arrive, they will naturally take up the "8" land, since "men seek to gratify their desires with the least exertion." (Shaded portion represents settled land.) Because the land is free, there is no rent. All they produce goes to reward their application of labor and capital.



Eventually, all the "8" land is occupied, and the next comers must resort of "7" land. This land is free and yields no rent. Its entire product goes to labor and capital as wages and interest. This "7" land is now the margin of production -- the best land to be had for nothing. Wages drop to 7 on "8" land, which now yields a rent of 1. If the owner of "8" land wanted to hire labor, he would have to pay 7 in wages, since that is what the laborer could get working for himself on "7" land. (This figure would also include interest if capital were used, labor and capital together constituting the active agent in production.) If a laborer from "7" land wanted to work on "8" land, he would pay 1 to the owner in rent, since he can get no more than 7 working on free land.



Settlers keep coming and "7" land is taken up, so the next comers must go to "6" land, pushing down the margin of production to "6". The amount available for wages and interest now goes down to 6 on all lands. New settlers must next go to "5" land, as illustrated below. The "5" land is now the margin. The amount available for wages and interest drops to 5 on all lands, and rent correspondingly goes up on all lands above the margin.



The Laws of Wages and Interest

Stated reversely, the law of rent is necessarily the law of wages and interest taken together, for it is the assertion that, no matter what the production that results from application of labor and capital, these two factors will only receive in wages and interest such part of the produce as they could have produced on marginal land. If the margin has been pushed out so far that there is no more free land, or if marginal land is not capable of sustaining human life, wages become fixed at the level of sheer subsistence, and interest at a level barely above the cost of capital replacement.

Wages and interest tend to rise and fall together. If interest goes up in relation to wages, a countermovement sets in to restore the equilibrium. For at the higher interest, more capital will be supplied and less demanded; while at the lower wages, less labor will be supplied and more demanded. This will lower interest and raise wages until a balance is restored.

If interest goes down in relation to wages, a countermovement also takes place. At the lower interest, less capital will be supplied and more demanded; at the higher wages, more labor will be supplied and less demanded. Thus interest will then tend to go up and wages to go down until the equilibrium is restored.

While wages and interest tend to an equilibrium, this does not hold true of rent. Land being fixed in quantity, there can be no new supply to bring rent down. Thus rent increases at the expense of both wages and interest.

The laws of wages and interest may therefore be stated as follows: Wages depend upon the margin of production (or upon the produce which labor can obtain at the highest point of natural productiveness open to it without the payment of rent), falling as it falls and rising as it rises. Interest will rise and fall as wages rise and fall, according to the margin of production.

Thus rent, wages and interest are all determined at the margin. Together they account for the total distribution of the product. (Taxes, artificial monopoly profits, payment for personal services, etc., are forms of re-distribution.) But whereas everything above the margin goes to rent, the specific amount being determined by the relative desirability of the particular land in question, wages and interest remain at the margin regardless of how much more desirable the land on which they are earned may be.

The three laws of distribution arise from the fundamental principle that men seek to gratify their desires with the least exertion. This principle establishes an equilibrium between wages and interest, as men move to more advantageous opportunities. However, it acts reversely as between rent on the one hand and wages and interest on the other, because land is fixed in quantity, is non-reproducible, is absolutely essential to production, and its ownership confers a monopoly.

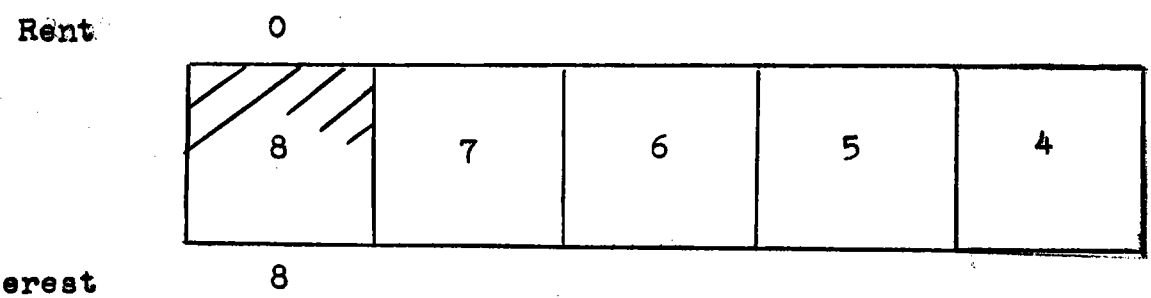
EFFECTS OF MATERIAL PROGRESS

Lesson V

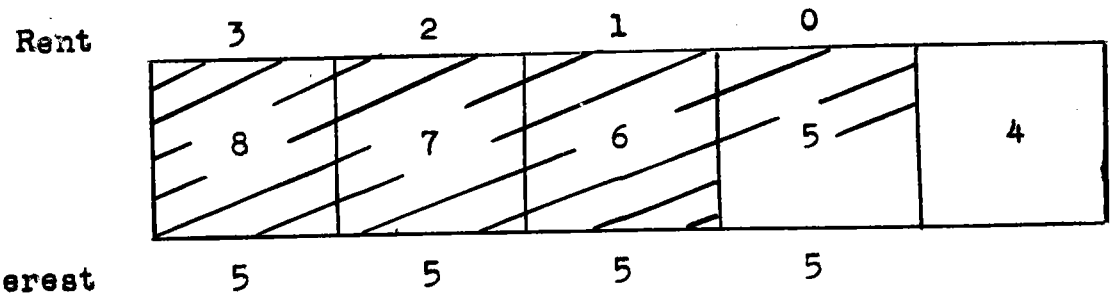
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As societies develop, population increases, more efficient means of production and exchange occur, and knowledge, education and technology advance. These all have the effect of enhancing the productivity of land, not just in terms of agriculture and the extractive industries but even more so from the standpoint of manufacturing and commerce. Population density, by encouraging the division of labor and facilitating exchange, brings out in land special capabilities otherwise latent, and attaches special capabilities to particular lands, all of which increases productivity and makes land more valuable. The margin of production is pushed out to poorer land because more people demand more goods, and the production of these goods necessitates more sites and a greater quantity of raw materials. Due to increased production, wages and interest may actually rise as a quantity while falling, because of the extension of the margin, as a proportion of the total product.

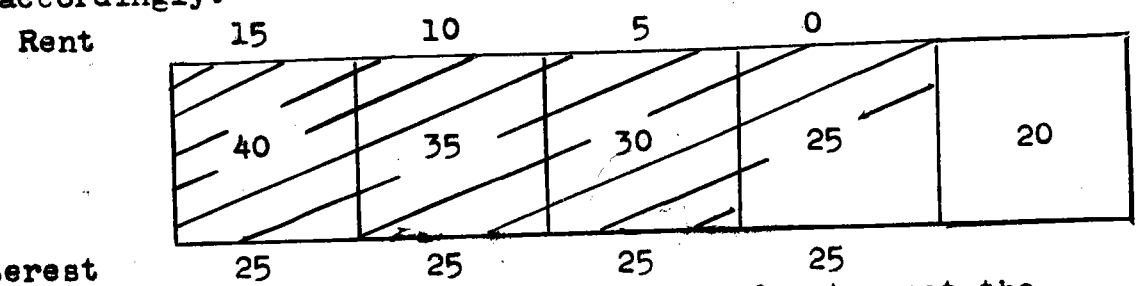
Again let us illustrate our point with diagrams. The first diagram represents society when the initial settlers have begun to occupy the best land.



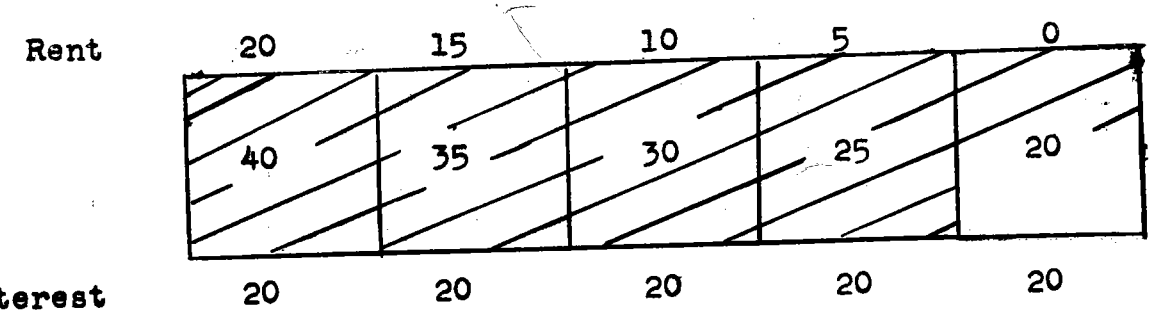
Settlement has now spread out to "5" land. Wages and interest together are now 5 everywhere, and rent is the difference.



The next diagram represents the same land after increase in population and material progress have increased productive power fivefold. Wages and interest on the one hand, and rent on the other, have increased accordingly.



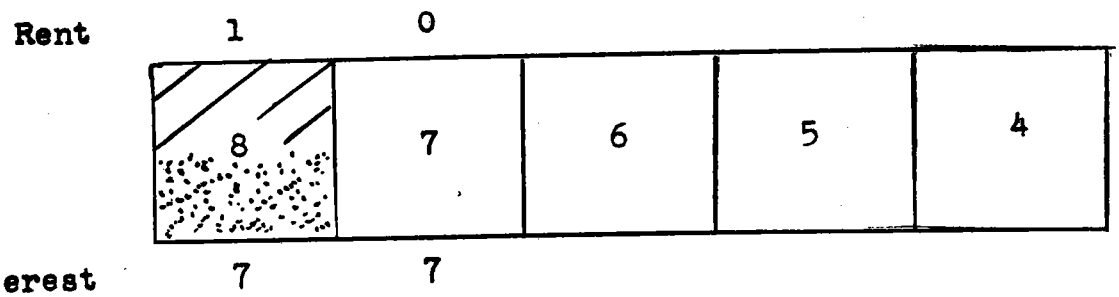
The margin is now pushed out to poorer land in order to meet the demands of progress. Although wages and interest have declined and rent gone up since the previous diagram, wages and interest are still much greater as a quantity than in the frontier period.



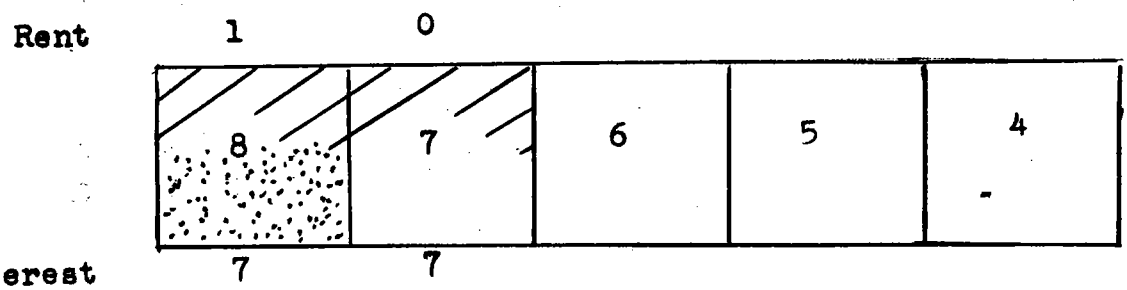
The natural tendency, if the desirable locations are fully utilized, is for productive power to accelerate faster than the margin of production falls, thus advancing wages and interest as a quantity although not as a percentage of the product. However, another element, speculation, alters

this movement, as we shall see in the next series of diagrams. As material progress goes on and rent advances, landowners tend to anticipate further increases of rent, and to hold land for a higher price than its current economic value.

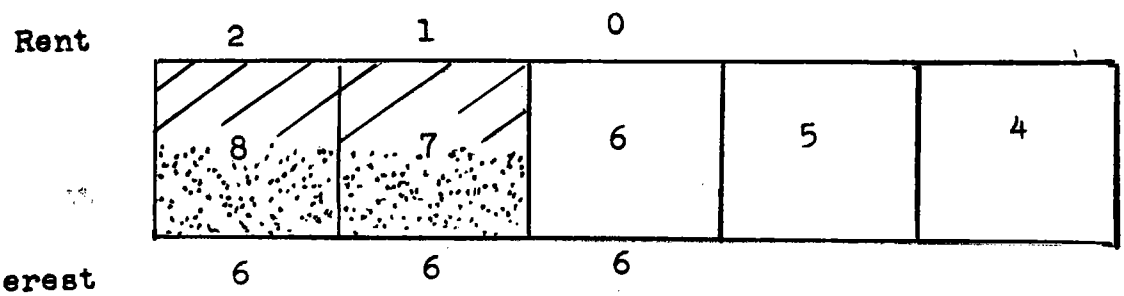
The first comers, knowing that others will follow, and remembering that where they came from land had a value and that the wealthy class owned large areas of valuable land, take more land than they themselves can use. (The diagonal lines indicate land in use, while the dotted spaces indicate land held for speculation.)



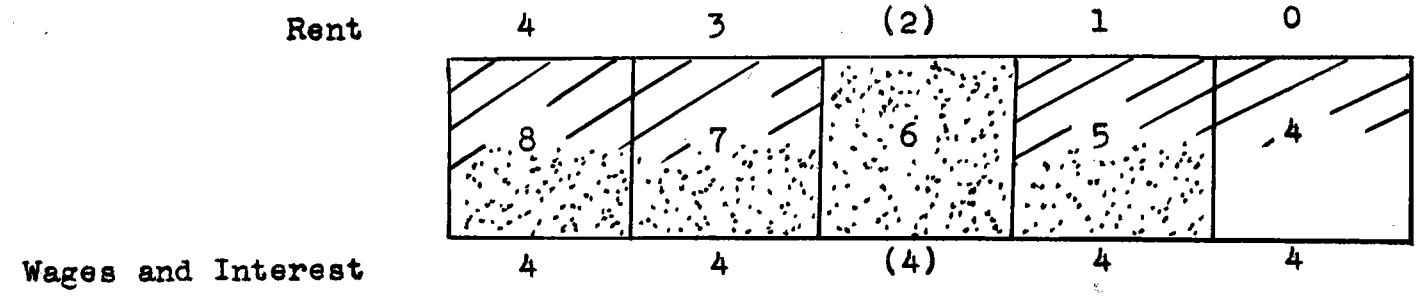
Thus the next settlers are forced to poorer land much sooner than they would have been if land were freely available.



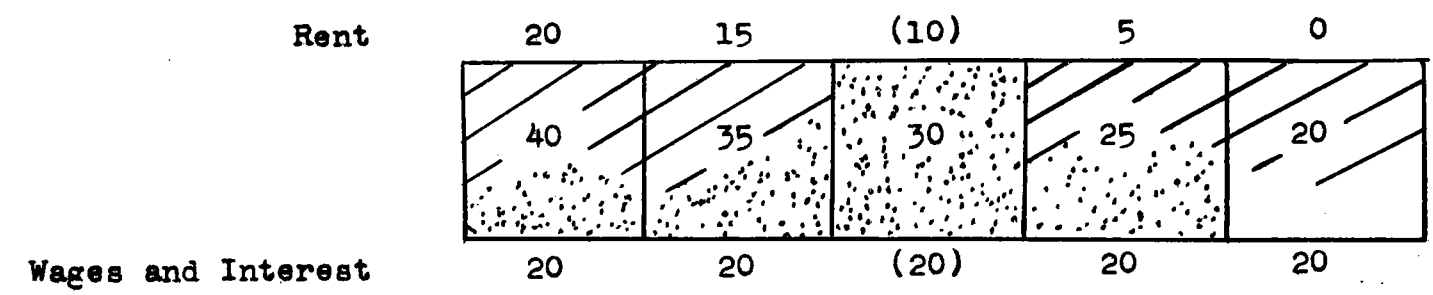
The next settlers appropriate in turn more land than they can use.



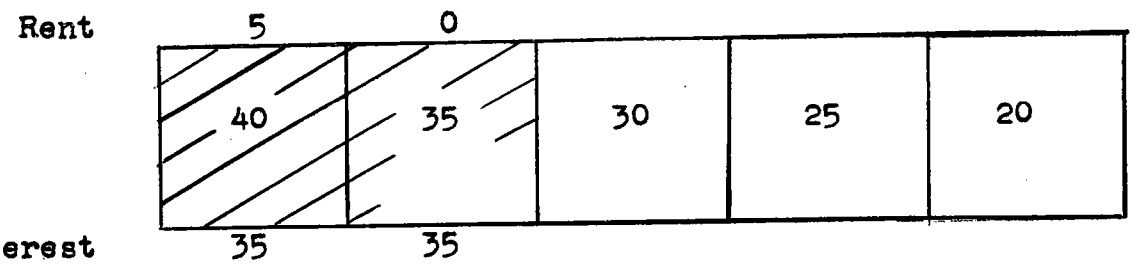
And so the following settlers are forced out increasingly further. (Since no production actually occurs on "6" land, the figures for rent, wages and interest on it are enclosed in parentheses.)



The next diagram represents the same situation as the last, but with productive power increased fivefold. The distribution is the same as in the earlier diagram which showed productive increase. However, in this case the reason for the distribution is not that the supermarginal (supra) land is all in use, but that the margin has been pushed out prematurely due to speculation. In this illustration, wages and interest, in spite of speculation, are still higher as a quantity than in the frontier period. But in the advanced stages of monopolistic speculation, the proportion taken by rent absorbs the quantitative increase which material progress has brought to wages and interest. When the margin is finally extended to land which is incapable of supporting human life, wages and interest are fixed by the requirements of bare subsistence. The landowner has no economic incentive to permit labor and capital any greater share than that which enables them to survive and keep his land producing. This is what long ago took place in many parts of Asia, Latin America and Southern Europe.



The final diagram shows what the situation would be like after the increase of productive power if there had been no speculation, assuming the same degree of settlement as in the two preceding diagrams. The margin is closer in because the most desirable locations are being used instead of merely held. There is the same amount of labor and capital as in the last diagram, but they are accommodated on better land. Consequently, wages and interest are higher, and rent is lower.



We have seen that the lion's share of the increased production which material progress makes possible goes neither to labor as wages nor to capital as interest, but is taken as rent for land. The high prices charged for the better grades of land either prevent producers from using these lands or take from them, in rent, much of what they produce there. Material progress cannot rid us of our dependence upon land; it can but add to the power of producing wealth from land; and hence, when land is monopolized, progress might go on to infinity without increasing wages or interest or improving the condition of the average man. It can but add to the value of land and to the power that its possession gives. Thus, "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." (Progress and Poverty, p. 295.) [unabridged]

We may boast of our free institutions as having molded into the American character the sturdy spirit of individualism and independence. But, as the great historian, Frederick Jackson Turner, emphasized in his classic essay on the influence of the frontier, the one thing which more

than any other contributed to form this indomitable American spirit was the existence of plenty of free land. In 1751, Benjamin Franklin wrote: "Notwithstanding the increase in population, so vast is the territory of North America, that it will require many ages to settle it fully; and until it is settled fully, labor will never be cheap here, where no man continues long a laborer for another, but gets a plantation of his own; no man continues long a journeyman at a trade, but goes among these new settlers and sets up for himself."

But the frontier has now practically vanished. There is now almost no land worth using for which rent must not be paid. With the passage of time, landownership concentrates into fewer and fewer hands, the margin is pressed further and further to the point of bare subsistence, and the conditions of the New World tend to resemble more and more those of the Old.

There is a very general impression that it is the capitalist who receives most of the benefits which come from material progress. So long as the distinction between capital and land is not clearly recognized, it will not be seen that the power given by the ownership of capital to preempt wealth is relatively slight, while the power given by the ownership of land is exceedingly great. It is true that the same individual or corporation may be, and often is, both capitalist and landowner; which fact is largely responsible for the confusion. Often when this economically dual individual or corporation is charged with exploiting labor, he, or it, is denounced as a greedy capitalist. But the power to exploit labor resides in the ownership of land, not in the ownership of capital.

Speculation in Land and in Commodities Compared

The harmful results of speculation in land are not paralleled by the

results of speculation in labor products. Given free competition, any ill effects from speculation in labor products must be very temporary. If speculation in any given product raises its price, the increased price will attract others to the making or the raising of that article; and this increased production, with free competition in marketing it, will bring the price back to the normal level. Then, too, wealth begins to deteriorate as soon as produced. If it is not sold after being produced (often very soon after) it tends to become worthless; therefore, speculation in a labor product can raise its price only for a comparatively short time -- until competetors can bring similar goods, or other goods which will answer the same purpose, into the market. And, if consumers refuse to buy at the higher prices set by the speculator, even this temporary advantage is lost to him.

Land, on the contrary, is a fixed quantity. When its price advances, no one can bring that price down again by producing more land! Nor does land need to be sold at any particular time, for it does not deteriorate while being held out of use -- its value may increase even while unused, a phenomenon characteristic of only a few labor products, such as antiques, which have little significance in the total economic picture. Customers may refuse to buy a labor product when they consider its price too high; labor cannot refuse to use land. Therefore any hardship caused by speculation in commodities is trivial in comparison with the hardships caused by speculation in land.

Some Further Thoughts on Interest

We have mentioned the fact that wealth begins to deteriorate as soon as produced. Therefore, since capital is a form of wealth, a loss will occur if it is not used. There is an apparent contradiction between this proposition and the proposition that interest is the return for saving.

Upon analysis, however, this contradiction turns out to be only a semantic one. When we speak of saving capital we do not mean keeping it idle. And when we speak of using capital, we do not mean using it for consumption. Although wealth used for consumption may have started out as capital, it ceased to be capital when it came into the consumer's hands. (Capital consumed in production is not, of course, used for consumption.)

But capital, if used efficiently, does more than merely replace itself. When wealth is used in production, it yields an excess over its replacement and the return to land and labor. This excess is interest. It represents a return over and above the expenditure of effort, with which the passage of time in conjunction with the dynamic powers latent in life itself, rewards productive abstinence from consumption. The return may be qualitative, as when grape juice, properly prepared and stored intead of drunk, turns into wine. Or it may be quantitative, as when a cow and a bull, penned and cared for instead of eaten, reproduce.

While many things, it is true, have no innate power of increase, the interchangeability of wealth necessarily involves an average between all its species, of any special advantage which accrues from any particular species. No one would keep capital in one form when it could be changed into a more advantageous one. "It is this general averaging or as we may say, 'pooling' of advantages, which necessarily takes place where the exigencies of society require the simultaneous carrying on of the different modes of production, which gives to wealth incapable in itself of increase an advantage similar to that which attaches to wealth used in such a way as to gain from the element of time." (Progress and Poverty, [unabridged] p. 185.) When one reflects upon the manner in which interest thus arises from saving augmented by the vital forces of nature in the course of time (and from the exchange of wealth produced thereby for other wealth), one

is struck anew by the absurdity of the Marxist claim that it consists of wages which have been witheld from labor.

PROPOSED REMEDIES FOR A SICK ECONOMY

Lesson VI

Pp. 116-131

Critics of the market economy condemn what they regard as its inherent propensity to concentrate wealth in a few hands, and its tendency to exhibit periodic booms and busts. Gustavus Myers, in his History of the Great American Fortunes, a still-influential book written in the first decade of the century, tried to show that free enterprise was a failure because it led to immense aggregations of monopoly power and privilege. A close examination of the book, however, indicates that what, without realizing it, Myers really showed was simply that free enterprise had not been allowed to operate fully -- that government had intervened in the market on behalf of favored individuals and groups, giving them special advantages in the form of franchises, tariff protection, contracts, and grants of public land. (The Rev. Edmund A. Opitz of the Foundation for Economic Education was the first to call attention to Myers' self-deception.)

Since then, much legislation has been passed to curb and regulate monopolies of capital and labor, much of which ignores the fact that, whether directly or indirectly, they are mainly government-created. In analyzing the present economic ills of our society, contemporary emphasis is chiefly focused on the role of these two factors. In contrast, the factor of land receives scant stress in current discussion. Yet, as we have seen, George demonstrated the radical importance of this factor, an importance which has in no way diminished since the time he wrote.

In dealing with the enigma of poverty amid advancing wealth, George addressed himself to the phenomenon we call depression, and, while not denying the existence of other contributory reasons, located its most basic cause in monopolistic land speculation. Such speculation forces rent beyond its economic level, as land owners demand the fruits of future production in the present. Finally a point is reached where what is demanded in rent is more than the land can produce if any incentive is left for the application of labor and capital. Entrepreneurs are unable to continue production on these terms, and the result is a slowdown in economic activity. There is a reluctance to invest in productive enterprise, precipitating mass unemployment. With mass unemployment comes a shrinkage in purchasing power, leading to further slowdown in production and still greater unemployment.

A study of America's biggest panics and depressions (1837, 1857, 1873, 1893, and 1929) indicates that all of them followed periods of inflated land value. (~~Cf.~~ See Homer Hoyt, One Hundred Years of Land Values in Chicago [Chicago: University of Chicago Press, 1933].) However, almost four decades have now passed without a depression. This is undoubtedly due in part to the fact that during much of this period the economy has been stimulated by military spending. It is also due to certain deliberate economic policies employed by government. But these policies may be only temporary in their effect, postponing the collapse to an even more catastrophic day of reckoning.

In the light of our study of the laws of distribution, let us now examine some of the major solutions to the problem of poverty which have been and are currently being advocated.

1. Economy in Government

Any reduction in the amount taken from the aggregate produce of the

community in taxation would be simply equivalent to an increase in the power of net production. It would in effect add to the productive power of labor and capital just as do improvements in technology and increasing density of population. As the advantage in the one case goes to the owners of land in increased rent, so would the advantage in the other. Reduced taxes would raise wages and interest in the short run, but the raise would soon be swallowed up in rent.

Of course, the foregoing is no more an argument against economy in government than it is against material progress. The more complex and costly government becomes, the more numerous its functions are, the more power it has and the more difficult it is for the citizens to control it. Any reduction of unnecessary government functions and expenditures is all to the good, for it lessens the opportunity for corruption and the exercise of arbitrary power over the lives of individuals. But desirable as it may be, it is no real answer to the economic ills which beset our society.

2. Increased Education and Improved Habits of Industry and Thrift

Like economy in government, increased education and improved habits of industry and thrift are certainly to be desired. Yet in the long run, under existing social arrangements they can do nothing in themselves to enhance general living conditions. To see why this is, we need only remember that as soon as land has acquired any exchange value at all, wages and interest are not determined by what labor and capital produce but by what is left to them after rent is paid. If the exceptional man does have a better education, or works longer or more efficiently or is more saving than his fellows, he may indeed improve his position. But if the average man were to better his education or increase his exertions or reduce his expenditures until these equaled those of the exceptional man,

this increased education or exertion or frugality would then become the average and would be demanded of all. The return then received for these heightened qualifications would not be that previously gained by the exceptional man, but rather no more than the average man previously gained without them. Only a few generations ago, the man who could read and write was an exception, and because of this he could command higher than average wages; but today, when practically everyone in the United States can read and write, this ability brings no premium. However, the lack of it now brings a penalty. If the Job Corps were to succeed in giving everyone in the nation a marketable skill, the effect would only be to decrease wages. What has just been said is equally true of thrift. As long as it is uncommon, thrift benefits the individual who practices it, by allowing him to save. When it becomes the norm, as long as men must compete for jobs, it simply drives wages down to what a thrifty man is able to live on. The Germans have long been noted for their industry, thrift and high general level of training. But these qualities did not save them from the economic distress which led to the rise of Hitler.

3. Labor Unions

The growth of unionism in various industries has unquestionably led to wage increases. The effect of this, however, has been in many cases to reduce the number of jobs. Unless the total sum of wealth produced is increased without the increase being preempted by rent, a rise in wages can only benefit some workers at the expense of others, or be passed on to the consumer in the form of higher prices. When the latter occurs, since all laborers are also consumers, any added buying power they recieve from wage increases is negated as soon as such increases become general, for with the general rise in commodity prices their wage advance turns into a mere paper one. If wages are again raised to "keep up with the cost of

living," prices again mount. We are all familiar with this spiral.

Aside from the ability to influence legislation, the only way in which unions can achieve their demands is through striking or threatening to strike. Any work stoppage involves not only a waste of capital but also a reduction in the product out of which wages must be paid. Even if a wage increase is achieved through a strike, it may never compensate for the loss of income suffered by the workers while they are off the job, particularly since, if union demands are met in many industries, the purchasing power of the increase will be offset by a general advance in prices.

Furthermore, a strike is by definition a conspiracy in restraint of trade, for it is bound to be broken if it fails to stop or slow production. Anti-trust legislation prohibits business from engaging in conspiracy in restraint of trade, but labor was specifically exempted from this prohibition by the Wagner Act. The question might well be raised as to whether or not such exemption violates the principle of equality before the law.

Cooperatives

There are those who believe that wealth would be more equitably distributed if middlemen were done away with, both in manufacturing and in exchange. They hold that if people will come together in organizations which produce goods or offer services for their members' use instead of for a profit, a higher standard of living will result. Producers' cooperatives seek to do this within a limited framework, inasmuch as their members, as members, are consumers only of wealth and services used in production. Consumers' cooperatives extend the idea further, since they are intended to supply wealth and services for their members' ultimate use rather than for a use which envisages further exchange meant

to yield a profit. Both forms have as their objective the abolition of unnecessary costs.

When middlemen are eliminated, the work of transportation and marketing must be handled by the cooperatives themselves. Since this is to abandon the principle of division of labor, it may very well not reduce actual costs at all in many cases. Any apparent saving would have to be balanced by the extra time and effort necessitated by lack of specialization. However, it is not to be denied that in some instances, especially in Scandinavia, cooperatives have contributed substantially to the well-being of their members. Yet if cooperation became the rule rather than the exception, any advantage it might give in reducing costs would be lost, for the same reason that industry, economy and education cease to give an advantage when they become general.

"Profit," it must be remembered, is only a bookeeping term; even if wealth is produced for use instead of for profit, it must still be divided between the factors of production in some manner. Where the land has been donated or leased on favorable terms to a cooperative, this will mean reduced production costs the benefit of which will go to the members as lower prices. Otherwise, any saving actually achieved by a cooperative is likely to be absorbed in increased rent.

5. Governmental Direction and Interference

The manifold forms of governmental direction and interference by which it is proposed to mitigate or extirpate poverty have one thing in common: they restrict the freedom of the individual. While this might not be enough to condemn them in itself, it is evident that whatever savors of regulation and restriction should not be resorted to if any other means exist by which the same end can be accomplished. A graduated tax on incomes, for example, is one means of reducing or preventing

immense concentrations of wealth. But this means (quite apart from the fact that it makes no distinction between wealth which is earned and wealth which is the result of privilege) is undesirable because it involves an army of officials clothed with inquisitorial powers. The temptation to bribery and perjury and other methods of evasion beget a demoralization of opinion, and put a premium upon unscrupulousness and a penalty upon conscience. And finally, just in proportion as the tax accomplishes its effect, it destroys the incentive to produce wealth, which is one of the strong forces of industrial progress

The restriction of imports, whether through quotas or protective tariffs, is another mode of interference which some imagine makes for high wages and a good living standard. In reality, these policies only keep prices artificially high without any corresponding effect on wages; in fact, they tend to lower wages by decreasing the amount of goods the wages will buy. They cannot raise the general level of wages or interest because by hampering specialization and the division of labor among nations, they lessen the amount of wealth to be distributed. Free trade is simply the free market on an international scale; it consists of letting people buy and sell as they wish to buy and sell. Tariffs and quotas are as truly applications of raw force as are blockading squadrons, and their object is the same -- to prevent trade. "The only difference between the two is that blockading squadrons are a means whereby nations seek to prevent their enemies from trading; protective tariffs are a means whereby nations attempt to prevent their own people from trading. What protection teaches us, is to do to ourselves in time of peace what enemies seek to do to us in time of war." (Henry George, Protection or Free Trade [New York: Robert Schalkenbach Foundation, n.d.], p. 47.)

The most thoroughgoing form of governmental direction and interference is, of course, Socialism -- public ownership of the means of production and exchange. Even if Socialism worked from an economic standpoint, it might still be a poor bargain because of the price which it exacts in human freedom. But as a matter of fact, as we pointed out in our discussion of the command economy, a purely socialized society would be an economic nightmare because it would have no rational criteria for economic calculation. Only a competetive market can establish sensible and just priorities as between conflicting wants and needs. Without such a market, there is no alternative to the excessive production of goods for which demand is meager, and the inadequate production of goods which people want. The objections to Socialism apply also to measures such as wage and price controls, whereby government attempts to regulate the exchange of wealth while leaving ownership in private hands. Since they partake of the essence of Socialism, they also exhibit its evils, for it is not ownership so much as control which determines the fundamental character of an economic system.

In the United States, as well as in many other nations, the most fashionable type of governmental direction and interference has for some time been the approach advocated by John Maynard Keynes and his disciples. Lord Keynes believed that the cause of business slumps and unemployment is too little investment. George would say that this is indeed the proximate cause but not the basic one -- that Keynes' diagnosis is like assigning "heart failure" as the cause of death. He would say that the reason for too little investment is that investment is discouraged by the speculative advance of rent. Keynes' remedy was to increase investment by government spending, which has a "multiplier" effect in generating spending from private sources. According to Keynes, there would be no point in

increasing government spending by raising taxes in the same amount, for this would mean a proportionate spending decrease in the private sector. The spending must come rather from an increase in the currency supply -- i.e., monetary inflation. This is mainly accomplished in various indirect ways, but in effect it is as if the government gets the extra money by simply printing it. Keynes also argued that if spending is to be increased when there is danger of unemployment, then it must be cut back when there is not. The business of doing all this is called "managing the economy."

It cannot be denied that the Keynesian approach "works" after a fashion. It is a major reason why we have had no industrial depressions for almost forty years. A continual decline in the value of money means that those who have contracted to receive fixed rents get a decline in <u>real</u> income. During an inflationary period, prices and profits <u>in terms of money</u> rise year by year but contractual rents remain the same. Thus monetary inflation can reduce the excessive overhead of land, often a speculative one, to manageable proportions. Further, the effect of steadily rising prices is to encourage consumers as well as manufacturers to buy ahead so as to get goods cheaper. This sparks economic activity which would, of course, eventually peter out were it not for subsequent and repeated doses of the same medicine. Unfortunately, inflation reduces not only the value of fixed rents but also that of such other sources of fixed income as pensions and insurance policies. In addition to this, it tends to price our goods out of the world market, causing a decline in exports and an adverse balance of payments.

Treatment of effects rather than of basic causes can be superficially and temporarily successful. Most drugs work in this fashion; the only trouble is that the moment they are stopped the symptoms appear again.

Monetary inflation is a drug which has unpleasant side effects. While alleviating one economic ailment, it triggers others. Thus it has often been found necessary to withdraw the drug for awhile. But when this is done, symptoms of the underlying disease again crop out. Even the most expert practitioners are seldom agreed as to exactly when the inflation drug should be administered and when withdrawn; neither are they agreed as to the dosage. The patient's condition is so complex and his environment contains so many imponderables that no economic doctor can prescribe with adequate knowledge of the consequences. Yet if the patient is not to suffer serious side effects, this drug must be administered with the most delicate timing and in the most precise amounts. Thus the results of this "cure" are frequently as bad as the disease. Even where this is not so, they obscure the underlying malady and thereby divert attention from the real remedy.

6. More General Distribution of Land

From what has already been said, it must be clear that there is a strong connection between social distress and the tenure of land. Today we hear much talk about the necessity for "land reform," especially in underdeveloped nations. By this is usually meant some scheme for dividing land up on a more equal basis, and restricting the amount which any one individual may hold. Few industrialized nations have done this to any significant degree, Japan being the most notable exception. The connection between social distress and the land question is more palpable and easier to recognize in an agricultural than in an industrial society, although in an industrial society it may be, although hidden, even more significant.

To equalize the distribution of land may spread the fruits of production somewhat more evenly, and make for political stability by

providing a broader segment of the public with a stake in the social order. This it has manifestly done in Japan, Formosa, and elsewhere. But while it may make the comfortable classes larger, there is no way in which its advantages can extend to the whole population. The difference in grades of land makes perfect equalization impossible, and even if this were not the case, population increase would require additional subdivision with each generation. Limitations on the size of holdings do not reduce rent; they simply augment the number of landholders. Rent still increases, and still steadily lessons the proportion of the produce going to labor and capital. The only difference is that some tenants of the first landlords, who become landlords in their turn, profit by the increase.

The modern trend is toward production on a large scale, both in manufacturing and in agriculture. Small farms are being combined into larger ones, which reduces the cost of production. Therefore any measures which merely permit or facilitate the greater subdivision of land would, in the long run, be inoperative, while measures compelling smaller holdings would reduce efficiency and cut down production, lessening the aggregate amount of wealth. Production on a large scale is a natural and wholesome economic development. Any sound land reform must go along with this natural trend, and not against it.

7. Public Appropriation of Economic Rent

The only remedy for an evil is to remove its cause. We have examined the most popular remedies intended to achieve a more just distribution of wealth, and found all of them either futile or characterized by side effects as undesirable as the condition they are meant to cure. None of them really go to the heart of the problem; they deal with symptoms only.

Henry George pinpointed the maldjustment which, more fundamentally than any other cause, gives rise to the manifold ills which plague our economic life. He located it in the private appropriation of ground rent, which, by fostering land speculation, and by giving an ever-increasing share of the wealth to a non-producing element within society, drastically curtails the return to those by whose labor and productive self-denial all wealth is created.

Having put his finger on the cause, George proposed to remedy it by making land common property through the public appropriation of rent. He advocated that as rent is appropriated through taxation, all other taxes be proportionately reduced or abolished. Therefore his philosophy is sometimes called the "Single Tax," although, strictly speaking, this term does not accurately describe it for reasons which will become apparent later. His assertion, "We must make land common property," requires explanation, for superficially it seems to suggest something in the nature of collectivism. That it really signifies nothing of the sort will become plain in subsequent lessons. Suffice it now to say that by "common property" George did not mean government property. He was far from advocating the abolition of individual land tenure, or the establishment of any kind of communistic subjugation by the state. George was, in fact, an uncompromising critic of Karl Marx, who, in turn, attacked him, calling his proposal "Capitalism's last ditch."

There are essentially three kinds of property: private, government, and common. Private property is that which an individual (or group of individuals) has the exclusive right to possess, enjoy, and dispose of as he (or they) may choose. Government (or public) property is that which belongs to the state and is subject to the direct control of the

political authority. Common property is that which all men have an equal right to use and to enjoy. It is thus seen that common property is not government property. Common property in the ocean is generally recognized; the ocean does not belong to any government. (Within territorial limits, ownership in the ocean is vested in the nation but not necessarily in the government.) And common property is different from private property. Common property permits of private use and possession, but only on condition that such use and possession confers no monopolistic advantage -- that it not be exercised in violation of the equal right of others to use and to possess.

The institution of private ownership of land has two distinct features: First, it gives undisturbed possession of the land, and security in the enjoyment of one's products and improvements. Second, it permits the private appropriation of the value ("unearned increment") which accrues to land by reason of the presence and activity of society. It is only this second feature of landownership with which George proposed to do away.

By its very nature, land is common property, and there still remain in most Western legal systems survivals of the primitive recognition of this fact. Society fixes the conditions under which land may be held. The principle of eminent domain asserts the superior claim of society to land. The constitution of the State of New York, for instance, declares: "The people of the State, in their right of sovereignty, possess the original and ultimate property in and to all lands within the jurisdiction of the State." (Sec. 1, Par. 10.) English and American law generally recognize absolute ownership of goods but not of land. The very distinction made in legal terminology between real and personal property is but the vestigial remnant of an ancient distinction between what was

originally looked upon as common property and what was always considered the peculiar property of the individual.

Private ownership of land is not essential to security of tenure. Without security of tenure, the user of land could not be certain of getting the benefits of the improvements he made or of the wealth he produced thereon; therefore he would not attempt to put it to its best use if doing so required the expenditure of much capital or effort on his part. But, given security of tenure, the man who wishes to <u>use</u> land (not speculate in it) does not need to own it in the sense that he owns the improvements made on it or the wealth produced from it. Today many of our largest buildings, including Rockefeller Center, the Chrysler Building, and the Waldorf Astoria Hotel, are built on leased land.

To effectuate common property in land, George proposed that individuals retain title to land, and be assured of fixity of tenure and undisturbed possession as long as they pay its rent to the community. For since the rent of land measures exactly the value of the advantage which exclusive possession of a site gives landholders over the other members of the community, it expresses the exact amount which they should pay to the community to satisfy the equal rights of all.

THE RIGHTFUL BASIS OF PRIVATE PROPERTY

Lesson VII

Pp. 145-168

Today, when the entire concept of property rights has come under attack, it is especially needful to arrive at clarity as to what constitutes the moral justification for private ownership. As this is done, it will become evident that a distinction must be made between genuine and spurious rights to property. One often hears it said that "human rights are more important than property rights." Actually, of course, nobody has ever maintained that property, as such, has rights. When property rights are spoken of, what is referred to is one of the most fundamental human rights -- the right of human beings to own property.

It is important at this juncture to be sure we understand the difference between charity and justice. Where in the name of love or charity it would be morally wrong for a man with plenty of food to let another man starve, this has nothing whatever to do with the <u>right</u> of ownership of the food, which, if morally established in the beginning, cannot be altered by another man's need. Thus the plea, "My need was greater than his," although in extreme circumstances sometimes viewed as pointing to a mitigating circumstance, has never been generally accepted as a justification for theft. The fact that people better situated may have a moral obligation to give, does not establish any <u>right</u> to receive on the part of the needy. It is upon the assertion of such a pretended right that such groups as the paradoxically-named "National Welfare Rights Organization" are based. If people are in need of welfare because

they have been deprived of legitimate rights, it is these that they should be claiming rather than demanding welfare as a right. Charity depends upon justice. Apart from justice there can be no true charity, because only in the light of justice can anyone know what is his own and what he has a right to give.

In seeking to discover the moral basis for private ownership, let us take as our starting point the proposition that a man has a right to himself. The alternative to this proposition is the moral acceptance of chattel slavery. From this proposition we may deduce the further proposition that a man has a right to his labor, since his labor is an extension of himself -- his person, poured out, as it were, with varying intensity in time. If this be so, it is patent that he must have a right to what his labor produces, or the equivalent thereof through free exchange. John Locke, the great British philosopher whose thought had such a profound influence upon our Founding Fathers, enunciated this concept in the following words: "The labor of his body and the work of his hands we may say are properly his. Whatsoever then, he removes out of the state that nature hath provided and left it in, he hath mixed his labor with, and joined to it something that is his own, and thereby makes it his property." (Of Civil Government, chap. 5.) Such property he has a right to use, to enjoy, to destroy, to exchange, to give or to bequeath, for it is the product of his own exertion.

Arguments for Private Property in Land

If we accept the proposition that the right to property is based upon the right of a man to the products of his labor (or to their equivalent by exchange), it is evident that no right to property in land can be established upon this foundation. For land is not the fruit of man's labor but a "free gift of Nature" or, as many of us would profess,

of God. Locke conceded that such a right may be justly recognized "as long as there is enough, and as good, to spare," but translated into economic terms this means as long as ownership gives no advantage which has market value -- i.e., as long as rent has not yet arisen. Clearly then, if private rights to land exist, their warrant must be found elsewhere. Let us examine in turn the main ideas set forth in support of private ownership of land.

1. Priority of Occupation: Were there always an abundance of land of equal quality available to everyone just for the taking, ownership grounded on priority of occupation would not disturb the principle of equal rights. When, however, those who must live by land find on coming into the world that all the good land has already been claimed without their having had an equal opportunity to participate in the allocation, it is a different matter. By equal rights among men we cannot mean equal rights for just one generation. If all existing men were to grant away their equal rights, they could not grant away the rights of those who follow them. "Just as the passenger in a railroad car may spread his baggage over as many seats as he pleases, until other passengers come in, so may a settler take and use as much land as he chooses, until it is needed by others -- a fact which is shown by land acquiring a value -- when his right must be curtailed by the equal rights of the others, and no priority of appropriation can give a right that will bar these equal rights of others." (Progress and Poverty, p. 345.) [unabridged]

2. Conquest: To seek to justify individual rights to land on the basis of conquest is to accept the principle that might makes right. One is reminded of the story of the Irishman who, found trespassing and being ordered off the land by its owner, asked, "How did you get this land that you claim to be yours?" The landowner replied, "My forefathers fought for

it, and that established my family's right to it." "Very well, then," said the trespasser, removing his coat, "I'll fight you for it for my family."

3. Inheritance, Purchase and Gift: The moral and legal rules of our society both recognize that a buyer or beneficiary can acquire no better title to anything than the seller or donor himself originally had. The person who in good faith with his own hard-earned money buys stolen property must, if the property is shown to be stolen, return it to the proper owner, whose right to it over-rides that of any other individual. The validity of any title to anything gifted, purchased or inherited must therefore depend upon the validity of the original title. With goods this is usually easy to establish; with land, impossible unless we accept one or more of the other criteria which we are in process of considering. As a matter of fact, if traced back far enough, virtually all land titles may be seen to have originated in fraud or force. (~~Cf.~~ See Alfred N. Chandler, Land Title Origins [New York: Robert Schalkenbach Foundation, 1945].)

4. The Making of Improvements to and Upon Land: The making of improvements gives an undeniable right to the improvements themselves, but it cannot give a right to the land because the land is not a product of human labor. All wealth perishes eventually, returning to the earth from whence it came. Thus when a man "mixes his labor with nature" to produce an object, his ownership of the object does not constitute a permanent monopoly of its material components, nor does his separation of raw materials from their natural storehouse prevent others from doing the same. Such is not the case with the ownership of land.

Some improvements in time become indistinguishable from the land itself. When such improvements as grading, draining or filling date

back many years, it may not be possible to make an accurate separation; however, in such cases it would not be necessary. The lapse of time would justify our considering these improvements as the work of nature, and this could hardly involve injustice to anyone since the investment they represent would presumably have been long since recovered. It would involve injustice, however, if such improvements were regarded as establishing a claim to perpetual ownership of the land.

Parenthetically, it might be pointed out that a musical or literary composition is the purest kind of labor product, requiring for its existence only the most negligible material embodiment. Yet our copyright laws recognize and protect the private ownership of such a composition only for a limited period of time, after which it passes into the public domain. Land, in contrast, which no man created but which God made for the use of all, may be legally monopolized in perpetuity!

5. Custom and Habit (Prescription): If custom and habit had always been accepted as a justification for not disturbing legal rights, we should still have slavery. As Herbert Spencer put it, he who uses the argument from custom must "find satisfactory answers to such questions as, How long does it take for what was originally a wrong to grow into a right? At what rate per annum do invalid claims become valid? If a title gets perfect in a thousand years, how much more than perfect will it be in two thousand years? -- and so forth. For the solution of which they will require a new calculus." (Social Statics; 1st edition [New York: Robert Schalkenbach Foundation, 1954], p. 105.)

With respect to property in land, this argument is especially inapplicable. For if a man or a people are robbed of money or goods, the effects of the deed are eventually obliterated by time. But to take from

people access to the land on which they must live is a continuous robbery, a fresh robbery of every succeeding generation; it is like the robbery which condemns to slavery the children of the slave. To apply to it the statute of limitations, to acknowledge for it the title of prescription, is not merely to condone the past; it is to legalize robbery in the present and to justify it in the future. When we speak of robbery in this connection, we are not, of course, impugning the character of any individual or class, but are referring to the system only.

It is on the basis of the argument from custom that some social theorists maintain that if rent were publicly appropriated landowners should be compensated for its loss. This is illogical. The present landowners are not to blame for the establishment of the system but neither is the public. To compensate the landowners for the full value of their privilege would serve no purpose, for it would only substitute for privately collected rent a staggering public debt equivalent to the rent capitalized plus commercial interest. According to existing law, if a title deed is in dispute, the one who can show the better title is given possession. The law allows no compensation to the loser, no matter how innocently he may have acquired the disputed land. He loses not only what he paid, but also any improvements he may have made, and he may even be forced to yield up whatever profit he derived from the land during the time he had it. If we applied the common law in the case of The People versus The Landowners, not only would no compensation be paid but the landowners would be held accountable for all the rent they had collected in the past!

Nothing so extreme, of course, is contemplated. In fact, it is usually proposed that the shift be implemented in very gradual stages, to avoid the likelihood of anyone suffering unduly. If cases of extreme hardship were still to arise as a result of the shift, very limited compensation might be considered as a matter of charitable expediency rather than of right.

6. Shrewdness and Initiative: It is sometimes argued that if a person has had the foresight to acquire land which has become valuable, its rent is the just reward of his initiative, for anyone else with the same shrewdness and industry could have done the same. Even if this argument were valid, it could, of course, only apply to members of the same generation, for assuming all potentially desirable land to be appropriated, the same opportunity is obviously not available to those born later, regardless of how shrewd and enterprising they may be. But quite apart from this, shrewdness and initiative cannot establish a right to monopolize something which properly belongs to everyone. Suppose some brainy fellow invented and constructed a machine capable of extracting the oxygen from the atmosphere, and then demanded that all others pay a tribute to him on penalty of having their oxygen withdrawn. Would anyone propose to justify his right to do this on the ground that he was simply clever enough to make use of an opportunity which had been available all along to everybody?

History of Property in Land

We have in more than one instance suggested an analogy between property in land and property in men, on the basis that the ownership of neither land nor men can be sanctioned by ethics or by reason. If we go one step further, we shall see that the cases are not merely analogous but ultimately amount to one and the same thing. For the ownership of land will always lead to the ownership of men, to a degree measured by the necessity (real or artificial) for use of land. This is but a different way of stating the law of rent.

Place one hundred men on an island from which there is no escape, and whether you make one of these men the absolute owner of the other ninety-nine, or the absolute owner of the island, will make no difference either to him or to them. In the one case, as in the other, he will be their absolute master -- his power extending even to life and death, for

simply to refuse them permission to live upon the island would be to force them into the sea.

As a matter of fact, the institution of absolute private property in land is, in Western society, a legacy from the Roman Empire, where it went hand in hand with slavery. Both began on a large scale with military conquests, when the conquerers divided the conquered territory among themselves and made slaves of the dispossessed. The Roman Empire fell victim to the devastating effects of land monopoly after its public domain had been carved into large estates, and the small propriators gradually crowded out. Circumstances eventually became such that only a tiny fraction of the population had any incentive to defend the borders of the empire against the Teutonic tribes which pressed upon them from the north.

These tribes, like virtually all primitive peoples, did not recognize private property in land. All the members of each tribe had equal rights to the use and enjoyment of the tribal territory. Pasture and forest lands were retained for use in common, and equality as to agricultural land was secured by periodical re-division. This system fostered the vigorous and independent spirit which enabled the Teutonic peoples to break through the frontiers and engulf the empire. (The American Indian approach to landed property was, by and large, similar. When the Dutch West India Company purchased Manhattan Island for the equivalent of $24, the Indians thought they were merely selling equal rights to the common use of the island, for the idea of absolute private ownership of land was unknown to them.)

The feudal system, which arose upon the ruins of the empire, was a blending of the Teutonic idea of common rights in the soil with the Roman idea of exclusive property. The sovereign, theoretically the representative

of the whole community, held all the land as a trustee for the public. For this reason, landed property came to be known as "real estate," i.e., regal or royal estate. Practically all the costs of government were met by the medieval equivalent of a heavy tax on land. The crown lands supported the expenditures of the royal court. The church lands defrayed the cost of public worship, instruction, and the care of the sick and destitute. The military tenures provided for the public defense. Although land was granted to individual possession, this possession entailed obligations by which the holder was supposed to render back to the commonwealth an equivalent for the benefits which he received from the delegation to him of the common right. His tenure was conditional upon the discharge of these obligations, and subject to review as a matter of course upon his death. His peasants held their plots and cottages as hereditary tenancies, and could not be evicted from them as long as they paid fixed rents, usually in labor or in kind. Furthermore, a considerable proportion of the area of most European countries was retained as commons, where anyone might hunt, fish, gather firewood, pick nuts and berries, or graze cattle or livestock.

With the waning of the Middle Ages, the feudal system began to disintegrate. Little by little, quite illegally, the commons came to be annexed to the private estates of the aristocrats and gentry, and the peasants forcibly evicted from their hereditary tenancies. (The story of Robin Hood cannot be understood except against the background of this process, known to history as the "Enclosure Movement." When Robin Hood "robbed the rich to give to the poor," he was not violating the authentic rights of property, but only in effect returning property which had been seized from its rightful owners.) This development went on for several centuries. In England, it culminated under the reign of Charles II, when

Parliament, composed exclusively of and elected solely by landowners, ratified the enclosures, and made landownership absolute instead of conditional upon the exercise of duties. Thus was revived the system which had eaten out the heart of Rome. As a result, until well into the present century much of the site of London was owned by a single individual -- the Duke of Westminster. With the colonization of the New World, this system was imported to America, but its influence there was minimized by the presence of vast free territories in the West. However, Franklin, Paine, Jefferson, Lincoln and others considered it fundamentally unjust, and recognized that in time it would create enormous social problems for the Republic.

Rent as a Social Product

So far, we have been attempting to show the inequity of absolute private ownership of land, an inequity which George proposed be rectified not by the abolition of individual land titles but by the public appropriation of rent. We shall now address ourselves to the subject of rent per se, and show that there is still a further reason why its full collection by the community would be morally correct.

The rent of land (including the market value of airspace, airwaves, mineral deposits, and all other natural phenomena) is a peculiarly social product which the owner, as such, does nothing whatever to create. This is apparent from the fact that a vacant lot, innocent of the least improvement, may be worth a fortune simply because of the presence and activity of the community around it, whereas, conversely, the most intensively improved site in the middle of an uninhabited desert will be worthless because there is no community around it to give it value. The ground beneath "Scotty's Castle" in Death Valley is a case in point.

Rent arises on a site, not because of anything the individual owner does to it, but because of the aggregate improvements in the neighborhood, the existence of roads, schools, police and fire protection and other public services, and the mere proximity of population.

There are those who claim that all commodities are social products, since nothing is produced for sale unless there is some demand for it on the part of society. But this is to ignore the fact that in a free market the value of commodities is governed by the relation between demand and an elastic supply. In the case of land, the supply is fixed by nature, not produced by labor in response to the demand. Of the two, demand is thus the only active factor which gives rise to rent. (Owners can, of course, artificially contract the supply of land by refusing to sell or lease their holdings at the current value, and thus increase its selling price. But this is a monopolistic phenomenon, not a feature of the free market.)

Rent is not the only form of unearned increment. The value of stocks, antiques and works of art may rise quite independently of their owners' effort or lack of effort. Yet even if these windfalls have not been earned by their owners, no one else has any better claim to them. They are not reaped at the public expense. Such manifestly cannot be said of rent.

Winston Churchill once put it this way in a speech before the House of Commons: "The greater the population around the land, the greater the injury the public has sustained by its protracted denial, the more inconvenience caused to everybody, the more serious the loss in economic strength and activity, the larger will be the profit of the landlord when the sale is finally accomplished. In fact, you may say that the unearned increment on the land is reaped by the land monopolist in exact proportion,

not to the service, but to the disservice done. . . . The greater the injury to society the greater the reward to the monopolist."

If society leaves in private hands that which society has produced, it must turn elsewhere for its revenue. This elsewhere can only be the wealth produced by private effort and initiative. To take this wealth for public purposes when a publicly-created source of revenue is left untouched, is an obvious denial of the true rights of private ownership.

"The right of ownership that springs from labor excludes the possibility of any other right of ownership. If a man be rightfully entitled to the produce of his labor, then no one can be rightfully entitled to the ownership of anything which is not the produce of his labor or the labor of someone else from whom the right has passed to him. . . . The right to the produce of labor cannot be enjoyed without the right to the free use of the opportunities afforded by nature, and to admit the right of property in these is to deny the right of property in the produce of labor. When non-producers can claim as rent a portion of the wealth created by producers, the right of the producers to the fruits of their labor is to that extent denied." (Progress and Poverty, [unabridged] p. 336.)

Landowners as individuals should not be condemned for profiting from the existing system. No one can be blamed for preferring to be a beneficiary rather than a victim of the system under which he lives. But perhaps we should all be condemned if we fail to work for the realization of a system under which there are no victims!

A NEW DIMENSION IN TAXATION

Lesson VIII

Pp. 132-144

In the United States the necessity for tax reform is coming to be recognized as never before. Congress is increasingly reluctant to vote new taxes or even to extend present ones unless they are tied to a major revision of the overall tax structure. Ominous voices are heard warning of a "taxpayers' revolt" if sweeping changes are not made without delay. There seems, however, to be no widespread agreement as to the direction which the reform should take, and most of the changes proposed would merely serve to plug loopholes and otherwise patch up the present system, a system decried as "obsolete" by President John F. Kennedy in his State of the Union Message of 1963. According to the late chief executive, it "exerts too heavy a drag on private purchasing power, profits, and employment. . . . It discourages extra effort and risk. It distorts the use of resources. It invites recurrent recessions, depresses the Federal revenues, and causes chronic budget deficits."

Three Purposes of Taxation

Although the primary and most obvious purpose of taxation is to raise revenue for public services, taxation can also be employed to redistribute wealth and to implement government management of the economy. A steeply progressive income tax is a classic levelling device. A surtax may have as its prime function the abatement of inflation -- removing excess money from the economy to decrease consumer demand. Some taxes are intended to fulfil all these purposes; others, to fulfil one or two of them. There is, however, no assurance that the effects of every tax

will be confined to the specific purposes for which it is intended, for taxes frequently have economic and social consequences independent of the wishes of those who institute them.

The best example is perhaps the window tax, which in England resulted in the bricking up of windows. In France, a tax on fireplaces, intended as a levy upon wealth, produced only cold homes, and a tax on newspapers (fixed by the number of pages) produced huge, unwieldy, one-page gazettes. The stamp tax and the tax on tea had results quite other than those contemplated by the ministers of George III! In our own time, taxes on improvements discourage building and renovation, and have even been responsible for the development of grotesque and inefficient forms of architecture.

Types of Taxes

There seems to be no limit to the tax variations and combinations which human ingenuity is capable of devising, yet there are really only two basic sources from which public levies can be drawn. One is the rent of land, and the other is the earnings of labor and capital. Most existing taxes in the United States are derived from both these sources indiscriminately, whether directly or indirectly, although assessment practices are commonly such that most property taxes fall less heavily upon rent than upon the value of improvements.

Import duties once constituted the chief source of federal tax revenue. Since the passage of the Sixteenth Amendment, the graduated income tax has supplanted all others as by far the major source. It falls upon personal income in one form and upon corporate income in another. Inheritance, estate and gift taxes, as well as the capital gains tax, represent variant applications of the income tax principle, differing from it chiefly with respect to timing.

Although many states also resort to income taxes, the sales tax is the most widely-used source of compulsory revenue on this level. In addition to the general sales tax, states usually levy special taxes on specific commodities such as cigarettes, liquor and gasoline. Local governments (county, municipal, school district, etc.) have traditionally depended mainly upon the general property tax. The above account collectively for the bulk of tax income at the various levels. It would serve no purpose to enumerate the multitudinous lesser imposts which might also be cited, many of them being only specialized versions of the more important taxes.

Four Criteria for Sound Taxation

Four canons have long been generally accepted as constituting the criteria for a sound tax. Although these criteria have been honored more in the breach than in the observance, few if any tax economists dispute their validity. They are as follows: 1. A tax should bear as lightly as possible upon production, so as not to decrease the general fund of wealth. 2. It should be easily and cheaply collected and administered, and should rest with those upon whom it directly falls instead of being passed on. 3. It should be certain, so as to give the least opportunity for corruption or arbitrary behavior on the part of officials, and the least temptation to law-breaking and evasion on the part of taxpayers. 4. It should be fair; it should bear equally, so as to give no citizen an advantage nor put any at a disadvantage as compared with others. Let us see how a tax on land values conforms to these criteria as compared with other taxes.

1. A tax should bear as lightly as possible upon production, so as not to decrease the general fund of wealth: All taxes must ultimately come out of production, since there is no other source of wealth. But

equal amounts of taxation may affect production differently, according to the manner in which they are imposed. A man might carry a load of a hundred pounds on his back and walk without difficulty, but the same load tied to his foot would make it impossible for him to take a step.

Taxation that lessens the reward of the producer necessarily lessens the incentive to production. Thus taxation that diminishes the earnings of the laborer or the returns of the capitalist tends to render the one less industrious, and the other less disposed to save and invest. A tax on a commodity increases its cost, and, by decreasing consumption, tends to discourage its production; if the tax be high enough, it will cease to be produced at all. All taxes on labor or on labor products tend to deter production, and thereby decrease the aggregate amount of wealth. This is true of income taxes, sales taxes, tariffs, general property taxes, and virtually all other taxes except the tax on land values.

Unlike taxes upon wages, commodities, exchange, capital or improvements, taxes levied upon the unimproved value of land do not bear upon production. The value of raw land does not express the reward of production (as does the value of crops, buildings, etc.); it expresses the exchange value of monopoly. Hence the community can take all of it without in the least lessening the incentive to improvement or the production of wealth. All rent could be appropriated by the community without reducing wages or interest one iota; without increasing the price of a single commodity, or making production in any way more difficult.

Not only does a tax on land not act as a deterrent to production, but it actually stimulates it. It does this by destroying speculative rent, and thus making more land available to producers at lower cost. If land were taxed to anything near its rental value, no one could affort to hold land without using it; consequently, land now idle or underused would

either be used to optimum capacity by its present owners or made available to those who would so use it. Speaking of the California Irrigation District Act, which provides for a tax solely upon land values as revenue source for California's irrigation districts, William F. Knowland, then Republican leader of the United States Senate, said: "This remarkable law has done more for the growth of the state than the discovery of gold. It works as a tool instead of a weapon. It takes people into instead of out of business."

2. A tax should be easily and cheaply collected and administered, and should rest with those upon whom it directly falls, instead of being passed on: With certain trivial exceptions, a tax upon land values is the cheapest and easiest of all taxes to collect. For land cannot be hidden or carried off, and its value can be readily ascertained -- particularly so if modern scientific methods of assessment are employed. Since the machinery for assessing the land and collecting the tax is already set up and in operation, no new governmental agency would be required. The machinery which now collects but a fraction of the value, could just as readily collect all of it. Furthermore, a vast horde of officials now engaged in collecting other taxes could be dispensed with, and could devote their efforts to wealth production, thereby enriching instead of burdening the community. This saving would reduce the difference between what taxation now costs the people and what it yields, but the substitution of a tax on land values for other taxes would operate to reduce this difference in another and even more important way.

A tax on land values does not add to prices, and is thus paid directly by the persons on whom it falls; whereas all taxes upon things of unfixed quantity increase prices, and in the course of exchange are shifted from seller to buyer, increasing as they go. Thus the consumer, upon whom

these taxes ultimately rest, must pay not merely the initial tax but also a profit on the capital advanced in turn to meet it by the manufacturer, the wholesaler, the jobber and the retailer. Furthermore, during its journey from the producer of raw material to the consumer, the product may be taxed several times. Since each successive tax is levied on a value which includes previous taxes, the consumer is forced to pay taxes on taxes as well as profits on taxes.

The incidence of a tax refers to where it ultimately comes to rest -- i.e., who pays it in the end. All reputable economists, whatever else their views may be, agree that a tax on land values stays put -- that it cannot be shifted by the landowner to the tenant or to the consumer of finished goods. This is not to say that the tenant or consumer does not pay the tax, but rather that he has already paid for it in rent, and cannot be made to pay twice by a tax increase. A tax on land values constitutes a reduction in the amount of rent retained by the landowner, and if it equals the total rent, that amount will, of course, be reduced to zero. The reason for this is that a tax upon anything the price of which is kept down by the ability to produce additional supply will, by increasing the cost of producing that thing, check the supply of it. This will add to the price of that thing, and ultimately fall on the consumer. But a tax upon anything of which the supply is fixed, and of which the cost of production is therefore not a determining element in its price, does not increase the price and falls entirely on the owner. Land is fixed in quantity. Consequently it is a monopoly, and land rent is always a monopoly or maximum price. In this respect it might be compared with the highest bid on a unique work of art sold at auction. Since the last bid represents the highest price anyone is willing to pay, if there be a tax on the sale it cannot be added

to the bid but must be paid by the seller, and will reduce the proceeds of the sale. Likewise, a tax on rent cannot be added to the rent; it simply reduces the income of the landowner.

3. A tax should be certain, so as to give the least opportunity for corruption or arbitrary behavior on the part of officials, and the least temptation to law-breaking and evasion on the part of taxpayers: Certainty is one of the important elements of sound taxation, for a tax which relies upon the honesty of either the taxpayer or the collector is bound to encourage fraud and evasion, and to make the estimation of anticipated revenues a matter of sheer guesswork. Such, unfortunately, is the nature of most existing taxes. We are all familiar with the way in which otherwise respectable people think nothing of misrepresenting their income on their annual returns, perjuring themselves before customs agents, deliberately undervaluing their personal property, etc., not to mention the fact that a myriad of tax lawyers and accountants have become rich through their ability to show their clients how to circumvent the law. It would be impossible to measure the waste of wealth, the squandering of talent and the misuse of time engendered by the complicated tangle of tax regulations saddled upon the public. Not only does the uncertainty of our taxes lead to great material loss, but it tells fearfully upon the public moral character. Our revenue laws put a premium upon dishonesty.

The land value tax has none of these defects, for it is as certain as any tax could possibly be. It may be assessed and collected with a precision and inexorability which partakes of the immovable and unconcealable nature of the land itself. Were all taxes placed upon land values, irrespective of improvements, the process would be so simple and clear, and public attention would be so directed to it, that the valuation of taxation

could and would be made with the same certainty that a real estate agent can determine the price a seller can get for a lot. The amount of the tax would be governed by the free market, not by a politician's motives or a bureaucrat's whims. Any deviation from market value would occasion immediate public censure, since the attention of all taxpayers would be focused upon assessment, and it would be easy to spot anything approaching favoritism, chicanery or arbitrary valuation.

4. A tax should be fair; it should bear equally, so as to give no citizen an advantage nor put any at a disadvantage as compared with others: Theorists are divided into two broad schools of thought as to what constitutes fairness in taxation. The most dominant school today holds that a fair tax is one which is based upon the ability to pay. A less polite way of expressing this idea is that a tax should "soak the rich." The graduated income tax at least theoretically adheres to this criterion, although the law contains so many loopholes that in actual practice the rich are often better able than others to evade it. The sales tax, on the other hand, is regressive, that is to say, it falls heaviest on those least capable of paying it.

The other school of thought maintains that a fair tax is one proportionate to benefits received from society. In other words, "you pay for what you get." A gasoline tax exemplifies this principle, assuming that the revenues derived from it are used exclusively for highway construction and maintenance.

In an incidental way, a tax on land values conforms to the ability to pay theory, since those who receive unearned increments are obviously to that extent better able to pay than are those who must depend for income on their earnings. However, it is in terms of the benefit theory

that the case for the fairness of the land value tax is most strongly made.

Public service cannot be rendered equally to all; each is bound to receive more or less according to his location. For instance, someone miles away from the center of population ordinarily receives much less public service than the city dweller. Since the rural person receives less benefit, it would be patently unfair to make him pay an equal tax; it would be equally unfair to give him the same benefits but make the city dweller pay for them. Equality in taxation must be equality in proportion to benefits received.

Most present taxes violate this principle, as they tax the individual not according to what society does for him, but according to what he does for himself. Let one be industrious and earn much wealth or build himself a fine home, and he will be penalized by high taxes; let another be lazy and shiftless and live in a shack, and his taxes will be very low or non-existent; yet both may get the same amount of service from society. If anything, the shiftless man is likely to get more, to the extent that he may be a public charge.

But, it will be said, does not the industrious individual get more protection and service from society, since he has more property to be protected? As a general proposition, this idea is fallacious. A policemen can patrol a street lined with mansions just as easily if not easier than he can a street lined with hovels. The same fire-fighting force will be required to protect a slum section as a neighborhood of modern homes. In fact, an old tenement requires more protection, since the possibility of fire is greater. Wealthy people usually have fewer children to be educated than have the poor.

It might be objected that the benefit principle, although equitable, cannot be successfully applied on a large scale, because a poor man would not be poor if he were capable of paying for benefits received. Hence, others must pay if he is not to be deprived of services. Yet if the poor man is even minimally self-supporting, the chances are that he is already paying for the social benefits he gets. However, instead of going to society in taxes, his payment goes to the landowner in rent.

The annual rental value of a site provides a precise and infallible index to the public benefits conferred in that location. No one can enjoy the benefits of community life and the social services which the community provides unless he occupies land in the community, and the demand for land, which sets its value, is determined by all the advantages which the location offers. Government services are only a part of such advantages; the opportunities and conveniences afforded to and by manufacturing and commerce, as well as the amenities of cultural activity and social interchange, are all social benefits reflected in the value of a site.

Henry George's proposal is sometimes condemned because of the seeming unfairness of placing the entire tax burden on one class, the landowners. But this objection stems from a failure to recognize that the value of public services is incorporated in the value of land. Landowners who rent their land necessarily act as tax collectors since they charge their tenants for public services. Inasmuch as they do not provide these services, there is no reason, from the standpoint of fairness, why they should be allowed to keep what they thus collect. By taxing land values, the community merely recovers from the landowners the value of the services and other public benefits paid for by the tenants. As for those landowners who do not rent their land but use it themselves, the land value tax would

represent a just charge for the public services and benefits rendered to them.

Under the present system, not only does the landowner not pay for the full benefit he receives from society if he happens to be the user as well as the owner of the land, but if someone else happens to be the user, that someone must pay both whatever tax is levied and the difference between that amount and the land's value. Since the value of most land is partly speculative, his payment is commonly greater by far than what it would be if all rent were appropriated by taxation. True rent measures the contribution of society; speculative rent measures the landowner's disservice to society. If land values were taxed in full, there would be no speculative rent, for there would be no incentive to perform the disservice of holding land for speculation.

Sufficiency of Land Value Taxation

To the classic Four Canons of Taxation must be added another criterion which should be considered in evaluating any tax. In actual fact, among government officials hungry for funds, this is usually the first and sometimes the only criterion considered: a tax must be capable of providing the needed revenue.

We have already seen that taxes which discourage production tend, if high enough, to decrease revenue by drying up the only source from which revenue can come. This a tax on land values could not do.

A land value tax is most admirably calculated to meet local needs because such needs increase with the concentration of population, the same cause which is responsible for the increase in land value. The property tax, of which the land value tax is a mode, is traditionally collected and administered by local governments for local purposes. To the extent that local governments have failed to collect economic rent, they have become

dependent upon Washington. By failing to appropriate economic rent, the states, too, have been forced to rely increasingly upon the central government, thus weakening the federal structure of divided sovereignty embodied in our Constitution.

The land value tax is, technically speaking, not really a tax at all, since a tax is authoritatively defined as "a compulsory contribution . . . to defray the expenses incurred in the common interests of all, without reference to special benefits conferred." (E. R. A. Seligman, Essays in Taxation [9th ed.; New York: Macmillan, 1923], p. 432.) It is rather a public price charged by society for the exclusive privilege of using a location. It "falls upon those who receive from society a peculiar and valuable benefit, and upon them in proportion to the benefit they receive. It is the taking by the community, for the use of the community, of the value that is the creation of the community. It is the application of the common property to common uses." (Progress and Poverty, p. 421.) [unabridged]

It must be admitted that there are some public services which are of a general nature, and which do not represent any peculiar benefit determined by location. Protection from foreign aggression is the most significant of these. Without it, the value of all locations in a given nation would drop equally for all the citizens of that nation to the extent that conquest would negate the security of all their lives and property. Therefore, the cost of national defense represents not a special benefit conferred by society upon those who use desirable locations, but a general benefit to all within a given nation irrespective of location. The staggering cost of modern warfare makes it improbable that the expense of such a benefit could be met from rent, and still allow for other services which people legitimately expect from government. This, however, is no argument against

appropriating rent in full and applying it to public purposes, including defense, as far as it will go. Many proponents of the benefit theory would advocate that any necessary additional defense revenue be obtained through a flat percentage tax on incomes.

The total rent of land in the United States has never been precisely ascertained. Although scientific methods make it possible to appraise land with a high degree of accuracy, irregular assessment practices around the country grossly distort the total picture. Furthermore, rent is disguised in numerous ways -- for instance, it figures largely in stock dividends. There can be little doubt that at the time George wrote, the full appropriation of economic rent would have been enough to meet government budgets at all levels, with probably a considerable surplus. (In 1915, Wilford I. King, then the leading economic statistician, estimated that a single tax on land values would be able to meet all necessary government expenses. Steven B. Cord claims that it could probably have been adequate until the 1930's. ~~Cf.~~ See Henry George: Dreamer or Realist? [Philadelphia: University of Pennsylvania Press, 1965], p. 234.) Our government today has assumed greatly increased functions, and grown enormously in size and cost. However, it should be remembered that a tax on land values is more than just a revenue device. It is an engine of social and economic change, which ~~would~~ can effect economy in government by lessening the need for revenue. If fully implemented, it would so stimulate production as to generate a natural full employment which would make it unnecessary for the government to tinker with the currency supply or embark upon vast programs of public spending to forestall depression. With the unlocking of natural opportunities presently monopolized, the need for welfare programs would be drastically reduced. Government bodies would not be forced to pay speculative prices to acquire land needed for

roads and other public projects. Although the selling price of land would drop, aggregate economic rent would increase, due to expanded production and fuller use of super-marginal land. Thus instead of shrinking, the tax base from rent would actually be enlarged. This has been the experience of many communities in Australia and elsewhere which tax land heavily and exempt improvements. For these reasons, it is not at all ~~impossible~~ improbable that the land value tax might ~~indeed~~ at least be adequate, ~~at least~~ for all domestic purposes.

Why Land Value Taxation is Not in Greater Use

Legislatures tend to write tax laws according to the pragmatic approach commonly referred to as "plucking the most feathers with the least squawks." Persons with cohesive vested interests naturally form pressure groups in order to be able to "squawk" effectively, and it is hardly to be wondered at that politicians are responsive to them. A tax on land values is the only tax of any consequence that does not distribute itself. It falls upon the owners of land, and there is no way in which they can shift the burden upon anyone else. Hence, a large and powerful class is directly interested in keeping down the tax on land values, and in substituting, as means of raising required revenue, taxes on other things. There is no group which has a similarly direct and immediate vested pecuniary interest in seeing such a tax instituted, even though the vast majority of people (including even many landowners) would be better off if it were in effect. This is the answer to the oft-raised question as to why, if a tax on land values be so advantageous, so many other taxes are resorted to by most governments in preference to it.

PRACTICAL EFFECTS OF GEORGE'S REMEDY

Lesson IX

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We have examined the justice of Henry George's remedy, and also considered its efficacy as a tax measure. It is now time to look at some of its broader economic and social implications. In doing so, we are not obliged to depend upon mere conjecture. For although the principle of exclusive land value taxation (approaching the full economic rent) has nowhere been fully implemented on all levels of government, there are many instances of its application on a partial scale, with results commensurate to the degree of application.

Probably the three most serious problems of our economy are unemployment, inflation and housing. The first of these may not seem to be a matter for current concern, because of the defense-generated need for manpower, and of the government's policy of artificially inducing full employment by deliberately inflating the purchasing media. However, these are palliatives, not solutions. They provide relief for unemployment without touching its underlying cause. No person of good will could wish for a continuation of military exigencies merely because they lead to spending which creates employment. Inflation as a means of relief constitutes a serious problem in itself, for it raises the cost of living and causes hardship for those whose incomes are fixed or do not rise fast enough to keep up with increased prices.

Effect on Employment

Land value taxation stimulates production, engendering a natural demand for labor. It releases, for productive investment, savings which would otherwise be channeled into sterile speculation. It opens better natural opportunities to labor and capital, and, by making it unprofitable to hold land for speculation, forces idle and underused land into optimum use. This causes a rise in real wages and interest, as the margin rises with the opening of natural opportunities. The concurrent removal or reduction of taxes on labor products creates further incentive to production in three ways: (1) by lowering commodity prices, thus permitting markets to expand; (2) by increasing purchasing power and investment capital; and (3) by doing away with the necessity for much onerous record-keeping and red tape.

Effect on Purchasing Power

When the supply of purchasing media (coins, paper currency and demand deposits) exceeds the value of goods on the market, the value of the purchasing media shrinks accordingly and we have inflation. There are three respects in which land value taxation tends to deter inflation. In the first place, by unlocking natural opportunities now monopolized, it has an effect analogous to bringing back the frontier, eliminating the most fundamental cause of unemployment, and thereby rendering it unnecessary for government to resort to monetary inflation as a mechanism to maintain full employment. Lord Keynes attributed depression and unemployment to what he called "liquidity preference," i.e., a reluctance of capital to invest in productive enterprise. Like a diagnosis of "heart failure" as the cause of death, this analysis is correct as far as it goes. But George supplied the answer to the question of why liquidity preference occurs. When rent soars to speculative heights which transcend the possibility of

productive return, productive enterprise ceases to be profitable, and a retrenchment of capital is the logical and inevitable outcome. Since a heavy enough land value tax negates any incentive to speculate in land, rent under it reflects use value only, and cannot discourage productive investment. For this reason, and also because of the earlier mentioned fact that such a tax forces optimum land use, a second way in which land value taxation deters inflation is by so spurring production that for each dollar in circulation a dollar's worth of goods is in process of exchange.

Speculative rent inflates production costs and therefore the prices of commodities. Therefore, a third respect in which land value taxation deters inflation is by reducing prices due to the elimination of speculative rent. It is sometimes said that "rent does not enter into price." This is true in the sense that competition will not permit a manufacturer to charge more for a commodity produced on high-rent land than what the same commodity produced on the margin can bring. But whereas rent does not affect the relationship of individual prices to one another, it does affect the general price level, for as the margin is driven out to less and less desirable land, the cost of production on all grades of land goes up accordingly.

Effect on Housing

"Whence shall come the new barbarians? Go through the squalid quarters of great cities, and you may see, even now, their gathering hordes!" The problem of housing has profound social ramifications which manifest themselves in the agony of contemporary urban life. It is perhaps the most pressing domestic issue facing American society today, and shows every sign of becoming even more acute. For this reason,we shall shall deal with it in relative detail.

Over fifty years ago, Prime Minister David Lloyd-George warned the British Parliament that "low rent public housing bills will never be effective until you tackle the taxation of land values." In 1960, the Mayor's Special Committee on Housing in New York City reached the same conclusion, asserting: "The seemingly unstoppable spread of slums has confronted the great cities of the nation with chronic financial crisis. ... The two billion dollar public housing program has not made any appreciable dent in the number of slum dwellings. ... No amount of code enforcement ... will be able to keep up with slum formation until and unless the profit is taken out of slums by taxation."

Land constitutes a very sizable component of the cost of housing. In urban areas it probably averages at least one fourth of the total value of existing single-residence properties, and more than one sixth of the total value of apartment house properties, according to the National Commission on Urban Problems. Residential land costs have been rising much more rapidly than have construction costs. For example, building materials during the 1950's rose 24%, trade wages went up about 60%, but the price of land increased over 100% -- and many times that in most suburban areas.

Sociologists have long observed that slums usually form a circle around a city's heart. This is because they are composed of properties being held in anticipation of the expansion of the downtown area. During this period, they are allowed to deteriorate until such time as they are sold at vastly appreciated prices for commercial or industrial use. Any improvement means an increase in local property taxes, whereas the more run-down a property is the more it can be depreciated as a federal income tax write-off. Furthermore, slum buildings are so nearly worthless that they carry a very low appraisal; the worse the building the lower the appraisal and the smaller

the tax. Meanwhile, the land is seldom assessed at anything even remotely approaching its true market value. According to Professor Frederick G. Reuss of Goucher College, "By overtaxing good housing we first take away much of the incentive to keep improvement values up, but once an area is blighted we reassess it at a low value and thus pay a premium for poor upkeep." Hence our present tax system (if it can be dignified by being called a system) subsidizes slums and penalizes improvements. It harnesses the profit motive backwards, abetting speculation but discouraging development.

Aerial photographs show that there is more than enough land in and around all our cities to meet all our homebuilding needs for years to come. The trouble is that most of it is grossly overpriced and therefore not economically available. "Suburban sprawl" is what occurs when owners of close-in land which is logically ripe for development, hold out for tomorrow's price today, and fail to find buyers who can afford to pay it now. Unable to assemble the tracts they would prefer to buy, developers are impelled to leapfrog out to distant locations where land is still relatively cheap. This creates a wasteful and disorderly pattern of development, making homeowners drive past miles of unused or underused acreage in order to get to and from work, increasing the cost of local government by necessitating the spread of public services and utilities over vast areas of idle land, defying good local land planning, blighting millions of acres of countryside, and penalizing farmers who want to farm instead of speculate. It negates and frustrates the purpose of cities, which is to let people live and work close enough together to utilize and enjoy the maximum efficiency of community facilities and enterprises, with easy access and cheap distribution. It pulls business away from downtown, causing cities to stagnate and finally die at the core.

Land value taxation can reverse the tendency to urban decay and suburban sprawl, and has indeed done so wherever it has been applied. New Zealand, for example, began exempting houses and other improvements from taxation on a local option basis in 1896, putting the entire local tax burden on the land. Today the vast majority of counties, towns and boroughs use this system. It is in effect in every major New Zealand city except Aukland, the only one in which it has been found necessary to undertake slum clearance. Since 1916, Sydney, the largest city in Australia, has derived all its municipal revenue from land value taxation. According to the Sydney town clerk: "The removal of rates [taxes] on buildings encouraged their improvement as well as the erection of many fine new structures. Something in the nature of a transformation took place. ..... The major benefits since this tax came into force include a great expansion in residential, apartment, and industrial building. ...." Land is taxed four times as heavily as improvements in Johannesburg, South Africa. The Chamber of Commerce there asserts that "This system has had a great deal to do with the development of Johannesburg into the premier city of the South African subcontinent." In Pittsburgh, Pennsylvania, improvements are taxed at half the rate applied to land. This approach, known as the "Graded Tax Plan", was put into operation very gradually over a long-term period, and is at least partially responsible for the dramatic renovation which has in recent years made Pittsburgh a model of urban development. David L. Lawrence, for many years Mayor of Pittsburgh, and later Governor of Pennsylvania, endorsed the Graded Tax Plan in the following words: "It has discouraged the holding of vacant land for speculation, and provides an incentive for building improvements. In the distribution of the tax burden, it is beneficial to the home owners."

Land value taxation results in efficient land use. It obviates the over-intensive development in limited areas which takes place when there

is an artificial scarcity of sites for building. It makes for more compactness but less crowding. It reduces the cost of local government, and renders it possible for private enterprise to provide wholesome housing for low income occupants, without any government subsidy whatever. It transforms the value of land from a social liability into a social asset.

Effect on Homeowners and Farmers

All landowners, whether their holdings be large or small, are apt to look upon any land reform as being contrary to their interests, and to view with alarm the proposal to shift the burden of taxation to land values. But landowners whose sole interest is landownership are comparatively few. Most landowners have improvements of greater value than their land, and their interests as capitalists and laborers are greater than their interests as mere landowners, although many of them do not realize this. Land value taxation would prove beneficial to them as to all others whose income is derived mainly from their own production. The wage earner would naturally benefit most, but all classes of workers, including merchants, professionals and executives, would find their position greatly improved. The average homeowner has everything to gain by such a change. While the lot on which his house stands would lose its speculative selling value, its utility would remain the same and the elimination of taxes on improvements would reduce his taxes. Since the average homeowner has much more improvement value than land value, this difference should result in a substantial yearly saving. Cheap building sites and untaxed building materials would make it much easier for the prospective homeowner to secure a house free from the worry of a heavy mortgage.

Henry George foresaw that his proposal would meet with particular resistance among farmers. Inasmuch as farmers derive their living directly

from the land, it is not surprising that they should feel threatened by the suggestion that the land be made to bear the primary if not the exclusive burden of taxation. Yet in point of fact, most farmers would be far better off if this were done. Since agricultural land values are much smaller than the values of town and city land of equal area, taxes on agricultural land would be proportionately smaller, and in sparsely settled districts would be reduced to almost nothing. Farmers would be freed of the burden of taxes on the buildings, crops, equipment and livestock. Marginal farmers could acquire better land far more easily than at present. The high price of farm land due to land speculation has compelled farmers to shoulder the weight of mortgages, and it is this which has driven so many independent farmers into the class of tenants. Land value taxation eliminates speculative rent, bringing down the cost of acreage to a point within the means of ordinary people who want to farm. Early in this century, Denmark began imposing heavy taxes, both national and local, on land values, with reduction of taxes on improvements. It now collects about 50% of the total annual ground rent. In 1850, Danish farm tenancy stood at 42.5%. Today, 94% of Denmark's farmers own their farms, as compared with less than 64% in the United States.

Australia and New Zealand, where only landowners can vote on matters having to do with local property taxation, have witnessed the adoption of land value taxation by steadily increasing numbers of local taxing units over the years, and its retention by almost all of those which have adopted it. This would indicate that the majority of landowners, who are also land users, find that their interests are best served by such a tax.

Perhaps the most convincing evidence for the practical efficacy of land value taxation is the Hutchinson Report, a survey comparing the six Australian states in terms of the degree to which they use this method of obtaining public

revenue. This study is updated periodically, the most recent edition having appeared in 1962. Queensland, New South Wales and Western Australia have much heavier land value taxes and lower improvement taxes than do South Australia, Victoria and Tasmania. According to the Hutchinson Report, in the period considered the first group had increases in land under crops, while the second group had decreases. The value of improvements as compared to land was found to be 151% in the first group, as against only 79% in the second, and was far higher (198%) in Queensland, which collects the greatest amount (54.4%) of economic rent. Factory wages were higher in the first group and larger in purchasing power. Lastly, it was discovered that population was flowing from the second group to the first group, indicating that people in Australia found conditions better in the first group. The inflow for Queensland, the state taxing land values the most, was the greatest.

Answers to Typical Questions

Let us now attempt to answer some typical questions asked concerning the practical application of Henry George's proposal:

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

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

Q. Should 100% of the rent be collected?

A. Strictly speaking, yes. Henry George, however, suggested that a percentage of the rent be left to landowners so as to dissuade them

from allowing their titles to become forfeit to the state, which would encumber the government with the trouble of renting lands. The landowners would perform this service, in effect, and retain a percentage of the rent as their "commission." A reasonable commission might be between 5% and 10%, making the tax 90%-95%.

Q. How would the rent be apportioned as between local, state and federal government?

A. One proposal is to collect all rent at the local level: the local governments would pass a percentage on to the state governments, which in turn would pass a percentage on to the federal government. This is the method usually used as between state and local governments when property taxes are levied by the state. It was also used by the federal government when it levied property taxes between 1789 and 1861, apportioned among the states according to population, as specified by the Constitution. Another proposal is to let each level of government collect the rent from respective types of land -- municipalities from land within their areas; states from unincorporated land within their areas; and the federal government from oil fields, mines, forests, waterways and other natural resources which are federally owned.

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

A. Land value taxation is not a method of nationalizing the land and renting it to the highest bidder; it is a method of taxation. It would not only hinder, it would prevent the unjust ousting of another from his building. The tax falls upon landowners in

proportion to the value of their land. This value is determined impersonally by the real estate market -- by the demands of the whole community -- and not by occasional and arbitrary bids.

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

A. There is no just reason why the community should not charge poor widows as much for monopolizing valuable land as it charges rich men. In either case it is a special privilege which should be paid for. In our sympathy for the rare widow in this situation, let us not forget the hosts of widows who not only do not live next to mansions, but who have no place at all to live but by some landlord's consent. They would find it much easier to obtain decent housing under land value taxation than at present.

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

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

THE LAW OF HUMAN PROGRESS

Lesson X

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When told that his proposal is not a panacea, Henry George agreed, quickly, however, adding, "But I believe that freedom is," and explaining that freedom would be best secured by his reform. It was his deep conviction that the denial of freedom lay behind all significant social and economic maladjustments, since to him it represented an interference with the laws ordained by God and nature. But he did not mistake freedom for license or for privilege. He understood that authentic freedom must be reciprocal or equal, for freedom ceases to be freedom when monopolized. He understood that a free society must be an orderly society, for order, properly so-called, is not the contrary of freedom but rather the effective maintenance of its reciprocal distribution. Just as a well-ordered meeting will guarantee that no-one be permitted to monopolize the floor and thereby encroach upon the freedom of others to express themselves, so a well-ordered commonwealth will guarantee that no-one be permitted to monopolize the opportunities of nature and thereby encroach upon the freedom of others to use and enjoy the fruits of their labor. In both cases, order preserves freedom by assuring its reciprocal apportionment.

Perhaps this will help us to comprehend why, in speaking of the essential conditions for human progress, George equated freedom with equality. Only equal freedom is true freedom. By equality, he obviously did not mean

equality of condition, for this can only be enforced at the expense of freedom. He did not even mean equality of opportunity in any literal sense, for since this requires a system of handicaps to compensate for differences in native endowment, it, too, can only be enforced at the expense of freedom. Despite his utter antipathy to every form of snobbery and class distinction, George was no egalitarian leveller. He believed, for instance, that anybody who could honestly earn a fortune should be allowed to keep it, and to pass it on to his descendants. By equality he meant, rather, equal freedom of opportunity. He meant a state of affairs in which no-one is permitted to profit by excluding others from the advantages which nature offers indiscriminately to all, in which artificial barriers to excellence are lifted, and in which the rewards of superiority are not diminished by any toll to privilege. He meant, in other words, what is sometimes referred to as "a fair field and no favor."

The Law of Human Progress

In the primitive or solitary state the mental power of the individual is devoted entirely to maintaining existence. It is only by co-operation with his fellows, by the division of labor, that mental power can be devoted effectively to improvement. The greater the number of individuals in close association and the more extensive the co-operation, the greater the possibilities for improvement. Association or co-operation is, therefore, the first essential of progress.

The greater the conflict between individuals or groups, the more mental power is wasted in futile struggle; and since this conflict is greater or less as the freedom of the individual is violated or recognized, the second essential of progress is justice, or equality of freedom. This then is the law of human progress: association in equality -- voluntary

co-operation, with equality of freedom.

This law explains the march of progress, the rise and fall of civilizations. As men come together and co-operate, the economies which the division of labor permits enable them to devote mental power to improvement. Thus knowledge is gained, inventions and discoveries are made, better productive methods are devised, and the result of all this is to reduce the amount of mental power necessary to maintain the status quo and to release mental power for future progress. But with injustice or inequality of freedom, conflict develops and mental power is wasted. Wealth and power concentrate in fewer hands, which checks progress and ultimately brings decadence.

Man is gregarious by nature. From the very beginning he has sought the association and co-operation of his fellows. It is not civilization that brings association and co-operation, but these make civilization possible. Therefore, social development depends upon the degree which association and co-operation are allowed to attain.

The first obstacle to association is, of course, the geographical barriers which keep men apart. This is why civilization always arises and more progress is made in the great valleys and tablelands, where larger numbers can live and work in close association, and where less mental power is required to merely maintain existence. The natural barriers which have kept communities apart are responsible for differences in the social development of different groups. These differences have given rise to much prejudice and enmity between these groups, but this has been counteracted by commerce, which being a form of co-operation, has brought groups into mutual relation. This has had a tendency to augment understanding and to reduce conflict. Religion has also played an important part, and while religion has been a source of conflict, it has undoubtedly also been a great force for unity and

has linked together many groups which otherwise would have remained hostile to one another. And so if we read history, we may see that peaceful association among men has been the force that has carried men along the path of progress and has enabled civilization to advance.

But there arises in the growth of civilization itself a counterforce which most adequately explains how an advancing civilization can be arrested and even destroyed. Society as it develops becomes more complex. The division of labor, or specialization, brings greater power to society as a whole, but this is at the expense of the independence of the individual. As society develops and increases in complexity there arises a collective power against which the power of the individual cannot prevail. Unless the proper social adjustments are made, this collective power will become lodged in certain individuals and groups, and will give rise to a powerful class vested with special privileges. Thus inequality becomes greater as society develops and progress is made.

From the study we have pursued, it is obvious that the most paramount of all privileges and the basic cause of inequality among men is the privilege of owning the land on which and from which all men must live. While population is sparse, private landownership merely serves to give labor security in the use and enjoyment of its products, and civilization advances. But as population grows and progress is made, land increases in value, and the ownership of land becomes a means of divesting the producers of the results of their labor. Inequality thus established, the further civilization advances, the more pronounced does the inequality become. This is the force which ultimately brings progress to a halt and precipitates the fall of civilization. This outcome is inevitable, for on the one hand the masses are forced to expend all their mental power in maintaining a bare existence, and on the other hand the privileged classes expend their power in maintaining and extending their privileges.

How Modern Civilization May Decline

The progress of our present civilization is in accord with our theory of progression through association in equality. From its beginning, we can trace the tendency toward political equality and individual liberty -- the abolition of slavery and hereditary privileges, equality of all citizens before the law, religious freedom, and freedom of speech and of the press. As these rights were secured, civilization moved forward.

Yet even here in the United States, to those who can see below the surface of things, the symptoms of retrogression are evident. That we still have political equality is true, but when a certain stage is reached, it is of no avail. When population is sparse, political equality has the effect of bringing about a more equal distribution of wealth and power. But as population grows and land rises in value, an aristocracy of wealth and privilege is created, and political equality ceases to have any meaning except as an invitation to demagogues, and an opportunity to sell votes for "bread and circuses." Political equality in itself does not prevent land monopoly, and land monopoly must bring economic inequality.

Under such conditions, a government "of the people, by the people, and for the people" can most easily be reduced to a despotism. Forms are nothing when substance has gone, and the forms of popular government are those from which the substance of freedom may most easily go. For there despotism advances in the name and with the might of the people. There is no unfranchised class to whom appeal may be made, no politically elite orders who in defending their own rights may defend those of all. In a corrupt democracy the tendency is always to give power to the worst. A corrupt democratic government must finally corrupt the people, and when a people become corrupt there is no resurrection.

The new barbarians who may destroy this civilization will not come from distant lands -- they are here in our midst; we breed them in our slums. Let government become bankrupt, and law and order will be swept away. Property will be destroyed; what is not burned will be blown to bits. Chaos will prevail until some Caesar or Napoleon seizes the reins of power with a strong hand, and stifling autocracy succeeds wild anarchy to impose a peace which is the peace of death.

We have put men on the moon, yet we have neglected to make the social adjustments necessary to prevent the growth of economic inequality and the ultimate crushing out of freedom. The foundations of our social structure are being sapped before our very eyes. Even the most magnificent technological achievements cannot save Western civilization from the corrosive forces which are destroying it from within. Unless these forces are counteracted before it is too late, our conquest of space is but a glorious sunset which precedes interminable night.

The deadline draws perilously near, but the solution is ready to hand, neither complicated nor disruptive. It is to be found, as George said in a lecture at the University of California, "not in wild dreams of red destruction nor weak projects for putting men in leading strings to a brainless abstraction called the state, but in simple measures sanctioned by justice." In 1911, with the adoption of the Lloyd-George budget, such measures were actually written into law in England, but the outbreak of World War I prevented their being put into operation. Instead, with the rise of the Labour Party, Socialism came into its own, and Britain has been declining ever since. In 1912, Dr. Sun Yat Sen, founder and first president of the Republic of China, vowed to devote the remainder of his life to the implementation of such measures. Tragically, he lacked the power to do so, and died before any real progress could be made. His successors did not

share his grasp of what was needful. Then came Mao Tse-tung, singing a siren song of "agrarian reform," and there was nothing to forestall Red domination. In 1917, such measures were embodied in the program of the Russian Provisional Government under Prince Lvov, which took over upon the abdication of the Tsar. But by then the tide was irreversible. The Bolsheviks, with their false promises of peace and land, had already captured the centers of strategic power, and the Provisional Government was replaced by a tyrrany more absolute than the tsars had ever dreamed of.

Fortunately, in the United States the trend toward inequality has not so far advanced as to have passed the point of no return. Intelligent reform, if instituted, may yet avail to avert the doom which shall be surely ours if we ignore the stern lessons which history plainly sets before us. But it is not only the threat of doom which gives us reason to heed these lessons; to do so would be to pave the way for a new era of positive counterforce which, like a rank and noxious weed, has sprung up to choke the flowers of every civilization. Is it utopian to suppose that once this counterforce were extirpated, social progress would catch up and keep pace with technological achievement? Is it extravagant to believe that if association in equality were given free scope, civilization would flourish in ways we cannot now even begin to imagine? And if George's vision of the City of God on earth seems too rhapsodic for the temper of this positivistic age, let us at least admit that the liberation of human energies now constrained by privilege and bound by restricted opportunity would constitute a giant step in that direction!

Capsule Course Review

Let us look again briefly at the basic facts that political economy teaches us, then, armed with this knowledge, see how we have applied it

to the ethical concept of equal rights.

We first established the factors in the production of wealth, and then traced the laws of distribution which allocate the rewards of production to the owners of land, labor and capital. In obedience to the law of supply and demand, men can and will produce more capital when there is a shortage, but land he cannot produce. As civilization grows and demand increases, the price inevitably rises. This is a natural phenomenon, and there is nothing about it that could be described as "bad" in itself. What can be questioned, and indeed is questioned, is the morality of the private appropriation of this increment.

That the private ownership of land with its resulting speculation causes artificial shortage of supply is also an economic phenomenon which can be verified, and its social consequences lead one to pose the same moral question. We cannot change economic laws but we can change the social conditions under which they operate. This "interference" must come from the moral side, for the reason that man's moral relationship to man is man-made.

Looking to the moral side, we start from the premise that what a man produces is his own, and that only what he produces (gifts and legitimate exchanges apart) can rightly be regarded as his own. This must exclude land, the ownership of which cannot be traced to human production. Either the people of each generation have an inalienable right to share on equal terms the bounty of nature, or they have not. As Henry George so aptly put it:

> Here are two simple principles, both of which are self-evident --
>
> 1. That all men have equal rights to the use and enjoyment of the elements provided by nature.
>
> 2. That each man has an exclusive right to the use and enjoyment of what is produced by his own labor.

There is no conflict between these principles. On the contrary, they are correlative.

In the field of practical politics, we have seen that the only logical and equitable means of applying these principles is the progressive taxing of the rent of land, with its concomitant, the untaxing of labor, trade and industry. This done, there would be no need for land distribution or land confiscation or land nationalization; private and exclusive possession would be inviolable, and conditional only upon the payment of the rent or tax to the community. Since rent measures the advantages that any piece of land can provide as compared with that which secures only the market returns to labor and capital, the collection of this rent or surplus for the community's uses acts as an equalizer -- an equalizer not of incomes but of opportunities.

Returning to the main lessons that a study of political economy affords, we can observe the phenomenon that in spite of all the factors that contribute to the greater production of wealth -- increased population and the division of labor, inventions and improvements, heightened trade, developments in knowledge and education, etc. -- there are still millions of people in the most advanced countries who would fall well below the poverty line were it not for state aid. We observe that while competition tends to correct any increase in the rate of interest on capital, the rent of land invariably goes on rising -- an ever-increasing charge upon production and living space. With the growth of welfare aid for the poor there has grown also welfare aid for the privileged -- subsidies, protective tariffs and quotas, licenses, franchises, monopolies, etc., creating a huge burden to be borne by the consumer in taxation and higher prices.

We have noted the adverse effects of taxation upon production, and the converse effects of taxation upon land, and that the consequences of taxing

land and untaxing labor are comparable in economic importance to the moral importance of the equitable division of rent among society. There is a harmonious relationship between what is economically sound and what it morally just.

In the history of practical politics, the significance of land has been but partially comprehended by reformers -- and too well comprehended by those who would preserve their privilege. Economists preoccupied with palliatives, and politicians preoccupied with expediency, have brought forth a tangle of ill-conceived and half-thought-out legislation. The price of artificially-maintained full employment has been the debasement of the currency, exchange control, restraints on trade, monstrous subsidies, and naive attempts to regulate prices and incomes. Thus we are saddled with armies of civil servants, battalions of economists and office blocks full of bureaucrats, who run our lives. It is no coincidence that side by side with the welfare palliatives we have economic problems and crises which are met only by ineffectual gropings and a proliferation of stop-gap remedies that bewilder the layman and reduce his confidence to zero.

It has been truly said that "there is nothing so powerful as an idea whose time is come." Almost half a century ago, the author and diplomat, Brand Whitlock, observed that George's solution "will wait, I fancy, for years, since it is so fundamental, and mankind never attacks fundamental problems until it has exhausted all the superficial ones." By now it should be evident that even superficial problems cannot be adequately dealt with if we ignore the roots from which they spring. The nostrums and tranquilizers have all been tried; all have been found wanting. Does this not give credence to the hope that the time is not far off when, disillusioned with futile half-measures, mankind will at last be ready to

accept social and economic truth? Upon this hope, the Henry George School of Social Science predicates its program of instruction.

> "Whoever, laying aside prejudice and self-interest will honestly and carefully make up his mind as to the cause and the cure of the social evils that are so apparent, does, in that, the most important thing in his power toward their removal. This primary obligation devolves upon us individually, as citizens and as men. Whatsoever else we may be able to do, this must come first. ..... Social reform is not to be secured by noise and shouting; by complaints and denunciations; by the formation of parties; or the making of revolutions; but by the awakening of thought and the progress of ideas. Until there be correct thought, there can be no right action; and when there is correct thought, right action will follow." (Henry George, Social Problems [New York: Robert Schalkenbach Foundation, 1949], p. 242.)