Henry George School

Fundamental Economics

a ten-lesson course

based on Henry George's

Progress and Poverty

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Henry George School

Course in Fundamental Economics

Textbook: Progress and Poverty by Henry George

The purpose of this course is to study fundamental economic principles and to apply them in solving today's economic problems: poverty, unemployment, recession, slums, high taxes, inflation, etc. This course is Part I of a three-part study of *Principles of Political Economy*, but it is complete in itself.

The textbook used is Henry George's masterwork, *Progress and Poverty*. Though this book first appeared in 1879, it is fully applicable to today's conditions since the principles with which it deals are universal. A reading of the book will convince the student of its timeliness.

The basic problem which George set out to solve in this book is still today's basic problem: Why, in spite of progress, does poverty persist?

Many answers have been given since George's day, and many measures have been applied, but the problem still remains. The problems of the business cycle and recurring periods of unemployment have also defied solution. It would, therefore, be worthwhile to look into George's analysis, to which insufficient attention has been paid, and which has never successfully been refuted.

A fundamental and non-technical approach to economics is taken in this course. Basic terms are defined, basic economic laws are sought and basic principles are applied. Study supplements are offered for each lesson - not as a substitute for the text but to augment it - by elaborating certain points, by applying the principles to current conditions and by answering frequently asked questions.

The course proceeds with questions based on *Progress and Poverty* and is divided into ten lessons. Model answers are provided after each lesson is completed (except for Lesson I, which is introductory). Following is an outline of the course:

I. The Problem
II. Definitions; Production and Wages
III. Population; the Law of Rent
IV. The Laws of Wages and Interest
V. The Effects of Progress on Distribution
VI. Depressions and Recessions; Proposed Remedies
VII. The Remedy; its Justice
VIII. Application of the Remedy
IX. Effects of the Remedy
X. The Law of Human Progress

It will be seen that the last part of the course goes beyond economics and into social philosophy. The theme as it unfolds becomes more fascinating and well rewards the student who pursues it to the end.

Each lesson has a reading assignment in *Progress and Poverty*, and a set of questions to be answered. Numbers following questions (except in Lesson I) indicate the pages in the text where answers may be found. Some questions are based on the study supplements. Some questions are followed by a blank (-) indicating the student is to give an answer of his or her own.

To get the most from this course, the student should read the entire assignment. *Progress and Poverty* is a book to which one may profitably return.

LESSON I - THE PROBLEM

1. QUESTIONNAIRE. This is not an examination. You will not be asked to turn in this paper. Most of the following questions can be answered "yes" or "no". Insert your answers in the first column. Preserve this sheet until the completion of the course and insert your answers at that time, in the second column. You will find it interesting to compare your answers before and after the course. Questions in subsequent lessons will be based on a reading assignment in *Progress and Poverty*.

	first lesson:	*tenth lesson:*
1. Is there a known limit to human desires?		
2. Are periods of recession and unemployment unavoidable in a private enterprise economy?		
3. Would you consider the following to be wealth?		
(a) Trees in a virgin forest		
(b) Wood in a lumber yard		
(c) Fish swimming in the ocean		
(d) Fish in the market		
(e) Untapped oil in the ground		
(f) Gasoline in your car		
(g) A house		
(h) The lot on which the house stands		
(i) Money		
(j) Slaves		
4. Does automation cause unemployment?		
5. Can earth's resources support an increasing population?		
6. Is "zero growth" the best solution to economic problems?		
7. Would you consider the work of the following people as labor?		
(a) Coal miner		
(b) Entrepreneur		
(c) Traveling salesman		
(d) Independent storekeeper		
(e) Slave		
8. Would reduced taxes increase purchasing power?		

	first lesson:	*tenth lesson:*
9. Which of the following statements do you consider right? (a) Taxes should be levied according to ability to pay. (b) Taxes should be levied according to benefits received.		
10. Should the government place a limit on a person's earnings?		
11. Can labor be employed without the aid of capital?		
12. Put a check in the column after the statement you consider correct: (a) Employers pay wages out of their capital. (b) Employers pay wages out of what labor produces.		
13. Put a check in the column after the statement you consider correct: (a) Widespread unemployment is due to personal laziness, incompetence, lack of skill, etc. (b) Widespread unemployment is due to economic maladjustments over which the individual has little control.		
14. Is every one entitled to: (a) A living? (b) The opportunity to earn a living? (c) Neither?		
15. Do the following prevent poverty? (a) Social Security (b) Unemployment Insurance (c) Minimum wage laws (d) Guaranteed annual wage (e) Job training (f) Higher education		

2. READING ASSIGNMENT. Upon securing *Progress and Poverty*, read the Introductory, "The Problem", pp. 3-13; note especially pp. 10-13. This chapter outlines the nature of the problem to be investigated and the methods George proposes to use. Note the axiom George cites on p. 12: "Men seek to gratify their desires with the least exertion." This is the basic axiom upon which economic analysis is built.

LESSON II - DEFINITIONS; PRODUCTION AND WAGES

Reading Assignment: *Progress and Poverty*, Book I. Numbers after questions indicate page references. In questions followed by a blank (-), student is to give his or her own answer.

The Meaning of the Terms

1. What is political economy (or economics)? (See supplement)

2. What is wealth? (41-42, 49)

3. Are the following wealth? Explain. (38-40)

   a) land:

   b) bank notes, stock certificates, bonds:

   c) knowledge, skill, experience:

   d) slaves:

4. What is production? (See supplement)

5. Name and define the three factors in the production of wealth. (32-38)

   a)

   b)

   c)

6. Give examples of:

   a) wealth that is capital:

   b) wealth that is not capital: (-)

7. Are transportation and merchandising part of production? (48)

8. When is production completed? (48)

9. What is distribution? (See supplement)

10. Name and define the three avenues of distribution. (See supplement)

a)

b)

c)

Having defined our basic terms, we proceed with a study of their relationships.

Production and Wages

11. What is the problem of poverty as defined by Henry George? (17)

12. Does poverty still accompany progress? (-)

(Note: In Book I, Henry George examines the theory current in his day to explain poverty, i.e., low wages. It was known as the "wage-fund theory" and said that there was a fund of capital out of which wages were paid. The more workers there were, according to this theory, the less each got in wages, since the fund was fixed. Though this theory is no longer formally held, the assumption upon which it is based is still widespread, namely, that wages are drawn from capital. We now examine this assumption.)

13. When the laborer employs himself, are his wages drawn from capital? (50)

14. When laborers are paid by a percentage of what they produce, where do wages come from? (53)

15. When laborers are paid with money, is the result any different from paying wages in kind? (55-56)

16. Does labor precede the payment of wages? (57-59)

17. When a worker is engaged in a long-range enterprise, the product of which cannot be put into exchange immediately (e.g., a bridge):

a) Is the amount of capital lessened when wages are paid?

b) What stands in the place of the wages he or she receives?

c) Where do the wages come from? (64-68)

18. Give an illustration of a long-range enterprise and describe how value is added by labor as wages are paid. (-)

19. Do we live on production from the past, or on production that is continually going on (current production)? (75-76)

20. Does lack of capital explain the persistence of poverty in undeveloped countries? (81-84)

21. Does lack of capital explain the persistence of poverty in advanced countries? (87-88)

SUPPLEMENT - LESSON II
DEFINITIONS

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

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

These laws are not the ordinances and statutes enacted by government. They are natural laws that deal with people's efforts in society to procure the material means (wealth) to satisfy human needs and desires.

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

It is thus seen that wealth must have these characteristics:

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

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

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

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

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

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

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

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

Everything physical (other than human beings) which is not the result of human effort is within the economic definition of land. This concept thus includes not merely the dry surface of the earth, but all natural materials, forces and opportunities. The trees in a virgin forest are land; in a cultivated forest they are wealth.

Labor: All human exertion in the production of wealth.

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

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

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

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

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

The avenues of distribution are rent, wages and interest.

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

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

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

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

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

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

LESSON III - POPULATION; THE LAW OF RENT

Reading assignment: Book II, especially Chap. 4; also Book III, Chaps. 1 and 2.

Population and Subsistence

In our quest for a solution to poverty, we now examine a theory that is often put forward - that the world is becoming overpopulated.

1. What is the Malthusian theory, often advanced to explain the persistence of poverty? (91)

2. Have the populations of supposedly overpopulated countries actually outrun the means of subsistence? (113)

3. In these countries, does all the wealth go to those who produce it? (113-128)

4. In the various countries of the world, is there any consistent correlation between poverty and density of population? (See supplement)

5. Where do we find the greatest evidences of wealth, in densely populated communities or in sparsely populated communities? (143)

6. Does the increase of population decrease or increase the power to produce wealth? (150)

7. Does the increase of population therefore explain why poverty persists amidst advancing wealth? (150)

(The above questions only touch the essentials and do not do full justice to Book II. The student will find much thought-provoking material by reading all its chapters.)

The Laws of Distribution

As the answer to the problem of poverty is not to be found in the lack of capacity to produce wealth, we turn to the laws of the distribution of wealth.

8. In political economy, what is meant by:

   (a) the distribution of wealth?

   (b) the laws of distribution?
   (See supplement)

9. In what way are the laws of distribution correlated? (160)

10. Name the three factors of production and the return that each one receives. (162)

11. Is capital a necessary factor in the production of wealth? (164)

12. Is wealth always divided into three parts? Explain. (164)

13. Why is the term "profits" misleading in the study of political economy? (156-159)

The Law of Rent

14. How does the common meaning of the term "rent" differ from its meaning in the economic sense? (165)

15. If the same person is both owner and user of land, can there be rent? (165)

16. Can land yield rent if no one is willing to pay for its use? (166)

17. Does the rent of land depend only on its own productivity, or on its productivity as compared with land that can be had for nothing? (166)

18. What qualities make some land more productive than other land in the following kinds of production? (-)

(a) Agriculture:

(b) Mining:

(c) Commerce:

19. If labor must resort to land of inferior quality to get it free, what now happens to the rent on all better lands? (167; also study chart in Part 3 of supplement)

20. What is the margin of production? (The term "margin of cultivation" is sometimes used. Both have the same meaning.) (See supplement)

21. What is the Law of Rent? (168)

22. Where are the highest rents found? (170)

23. In what way are the Laws of Wages and Interest inferred from the Law of Rent? (171)

SUPPLEMENT - LESSON III

1. POPULATION AND RESOURCES

There is little correlation between density of population and poverty. Densely populated Belgium, Netherlands, Germany and Great Britain have higher standards of living than sparsely populated Brazil, Egypt, Iraq and the U.S.S.R. Sparsely populated Australia has a higher standard of living than densely populated Haiti. The so-called "overpopulated" countries of Asia, such as India and China, have fewer people per square mile than such countries as Japan and Israel where higher living standards prevail. (Check a current yearbook, such as the *World Almanac*, for latest population figures.)

Nor is it true that the most important cause of low productivity is poor quality of the soil. Denmark, with poor and sandy soil, has heavy agricultural yields because of good farming practices and favorable government policies.

The FAO (Food and Agricultural Organization) reports that there are more than a billion acres of unused but potentially productive land in the world, three-fourths of it in underdeveloped areas. Only one-sixth of the arable area of Australia is used. Canada is using only half of her arable area. In the Middle East, eight countries till 80 million acres; another 215 million acres could be tilled if they were irrigated. In the U.S.A. less agricultural land is being used than formerly, but production has increased.

Known petroleum resources of the world are increasing at least as rapidly as they are being produced. (From an oil "shortage" we have moved to an oil glut.) The solar energy that reaches horizontal surfaces in the lower middle latitudes is equivalent to about 1000 tons of coal per acre per year. The energy increases in the arid sub-tropics and tropics. This is greater that the energy content of all the reserves of coal, oil, natural gas and uranium in the earth's crust.

The ocean is a new frontier of abundant natural resources. Besides underwater oil, gas and minerals, there is an immense supply of food in the form of algae as well as fish. There are also vast underground reserves of fresh water which have not been tapped.

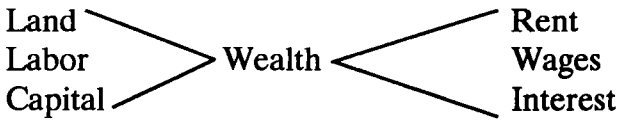
It has been estimated by the United Nations that, using present Western technology, the earth could easily support 50 times its present population. Naturally, this figure would be increased as technology advanced.

2. THE LAWS OF DISTRIBUTION

The distribution of wealth in economics means the division of wealth among the factors that have produced it.

The laws of distribution mean the natural laws which determine what portion of wealth produced is owned or controlled by each factor of production. The three factors are land, labor and capital, which get, respectively, rent, wages and interest. This is the primary distribution of wealth. Other distributions - e.g., taxes - are secondary, deriving from the three primary avenues.

The entire product (wealth) is distributed as rent, wages and interest, and hence this distribution must account for the entire product.

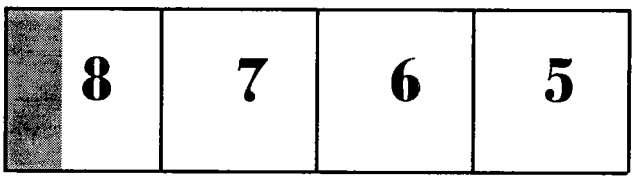


3. THE LAW OF RENT

These illustrations show how rent arises and is measured in relation to wages in a new society where capital is not yet used extensively. As the course proceeds, we shall see the effect when capital increases and society advances.

Let us imagine a new country where settlers are first arriving and all the land is free. Different lands have varying degrees of productivity. We will assume that all laborers have equal productivity. In the next lesson we will take note of differences in skill, etc.

Rent: 0



Wages: 8

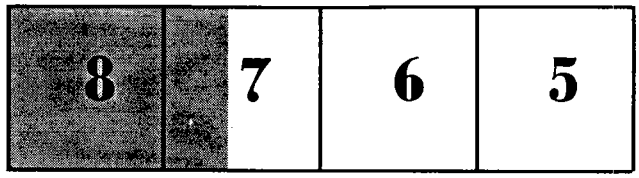
A. Represents a new country divided into areas of varying productivity. The figures represent what each grade of land will yield per unit of labor - e.g., 8 bushels of potatoes for one day's work; 7 bushels, etc.

In reality, lands are not marked off so sharply as on this diagram but blend into one another more gradually.

As settlers begin to arrive, they will naturally take up the Number 8 or most productive land, since "men seek to satisfy their desires with the least exertion."

As the land is free there is no rent. All that the settlers produce constitute their wages. (Shaded portions represent settled land.)

Rent: 1

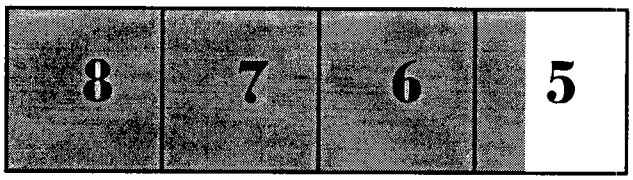


Wages: 7 7

B. Eventually, all the "8" land is occupied, and the next comers must resort to "7" land. This land is free and yields no rent. The entire product of 7 goes to labor as wages. This "7" land is now the margin of production - the best land to be had for nothing.

Wages also 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. If a laborer from "7" land wanted to work on "8" land, he would have to pay 1 to the owner in rent, since he can get no more than 7 working on free land.

Rent: 3 2 1 0



Wages: 5 5 5 5

C. Settlers keep coming and "7" land is used up, so the next comers must go to "6" land, pushing down the margin of production to "6" land. Wages then go down to 6 on all lands.

New settlers must next go to "5" land as illustrated above - "5" land is now the margin of production. Wages drop to 5 on all lands and rent correspondingly goes up on all superior lands.

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 (the margin of production).

The *margin of production* is the best land that can be had for nothing; or, the least productive land in use. (The "margin of cultivation" is sometimes referred to, but the margin of production is a better term, because "cultivation" would seem to refer primarily to agriculture, whereas the margin applies to all kinds of production.)

LESSON IV - THE LAW OF INTEREST AND THE LAW OF WAGES

Reading Assignment: Book III, Chaps. 3 to 8, especially Chaps. 5 to 8.

Having established the Law of Rent as one of the Laws of Distribution, we now proceed to a study of the Law of Interest and the Law of Wages. We take interest first, because wages are the ultimate object of our inquiry.

The Law of Interest

1. What is interest as used in political economy and how does it differ from interest in its commercial sense? (173)

2. a) Is land capital?

   b) Is the return from land interest? (189)

3. In which cases do stock dividends and interest on bonds represent true economic interest, and in which cases do they not? (189-191)

4. Does capital employ labor or does labor employ capital? (195)

5. How is the quantity of capital increased and decreased? (195)

6. a) What is the maximum return that can be obtained for the use of capital? (195)

   b) What is the minimum return? (195)

   c) What is the normal point of interest? (198)

7. Why do wages and interest tend to an equilibrium? (198)

8. If interest tends to rise above the point of equilibrium with wages, how will the balance be re-established? (200; also see supplement)

9. If interest tends to fall below this point of equilibrium, how will the balance be re-established? (200; also see supplement)

10. Suppose there were a shortage of sewing machines in relation to the availability of dressmakers:

    a) What would happen to interest on sewing machines?

    b) How would production of sewing machines be affected?

    c) When would this tendency slow down? (-)

11. Suppose a shortage of dressmakers in relation to the availablility of sewing machines:

    a) What would happen to their wages?

    b) How would this affect the flow of labor?

    c) When would this tendency slow down? (-)

12. On what grade of land do labor and capital obtain the total amount of wealth produced? (201)

13. What is the Law of Interest? (203; also see supplement)

The Law of Wages

14. Suppose a shortage of receptionists and an abundance of secretaries:

    a) Which occupation would offer the more attractive wage?

    b) In which direction would labor flow?

    c) When would this flow slow down? (-)

15. In a complex society why do we find great differences in wages? (207-210)

16. What are the occupations which most frequently use land at the margin of production and on whose wages all other wages depend? (212)

17. If a man can employ himself, what will be the lowest wage for which he will work for others? (205)

18. Where land is free and labor is unassisted by capital, what part of production will go to labor as wages? (213)

19. Where land is free and labor employs capital, what part of the product will go to labor as wages? (213)

20. Where rent arises, what determines wages? (207-213)

21. What is the Law of Wages? (207-213)

22. If all natural opportunities were reduced to ownership, what would happen to wages? (213)

23. Is the Law of Wages a law of quantity or a law of proportion? (216)

Correlation of the Laws of Distribution

24. From what fundamental principle of human exertion do the three laws of distribution arise? (218)

25. At what common point are rent, wages and interest determined? (219)

26. Do the Laws of Rent, Wages and Interest account for the full division of the product? (220-222)

SUPPLEMENT - LESSON IV

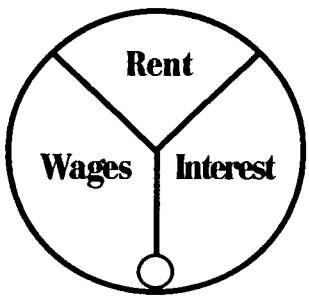
1. INTEREST AND WAGES

Interest is that part of wealth which is the return for the use of capital

In effect, interest is a return for human exertion which has been previously applied and stored up in material form to increase production. This return (interest) will balance with the returns for other human exertion applied directly (wages). Interest and wages will be equally attractive because people tend to apply their energies at the point of highest return. Relative to rent, interest will rise and fall with wages.

Wages are that part of wealth which is the return for labor

Wages are determined by what labor can obtain at the lowest point of production, that is, the best land available rent-free (the margin of production). Wages can be no higher on any better land because the competition of people seeking the higher returns would naturally tend to lower wages there, too. Any excess of product on better land goes as rent for the opportunity of using the superior location.



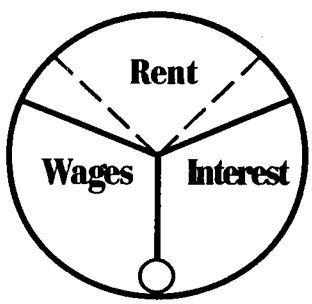
A. The total product is divided into Rent, Wages and Interest. Between wages and interest there is a balance represented by the pendulum dividing them. (Note: this refers to economic interest rather than bank interest which fluctuates according to risk, government policies, inflation, etc.)



B. If interest goes up in relation to wages, a counter-movement 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 but more demanded. This will lower interest and raise wages until a balance is restored.



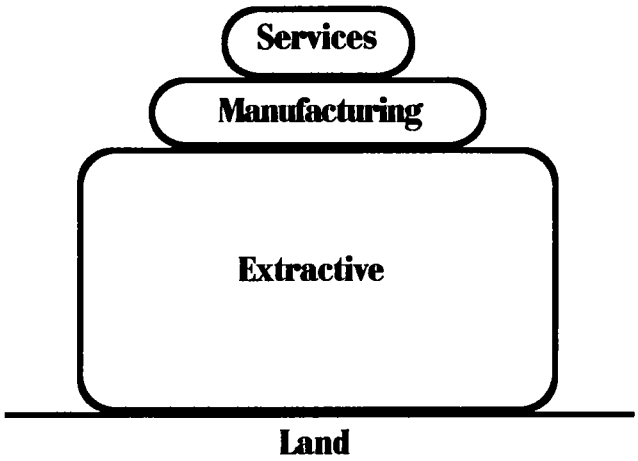
C. If interest goes down in relation to wages, less capital will be supplied. At the lower interest, less capital will be supplied and more demanded; at the higher wages, more labor will be supplied and less demanded. Thus interest will tend to go up and wages to go down until the equilibrium is restored.



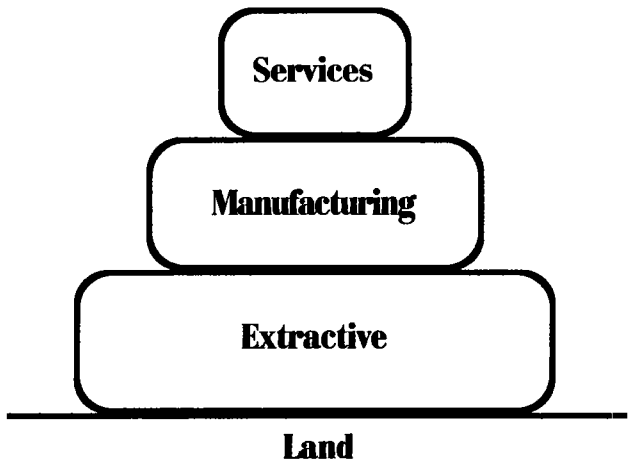
D. While wages and interest tend to an equilibrium, this does not hold true of rent. Since land is fixed in quantity, there can be no new supply to bring rent down. Thus rent increases at the expense of both wages and interest. As rent rises, interest will fall as wages fall, or will be determined by the margin of production.

(Note: Henry George elaborates a theory of interest based on the "reproductive modes of production." While interesting, it is not necessary to the formulation of the Law of Interest. See last paragraph on p. 203.)

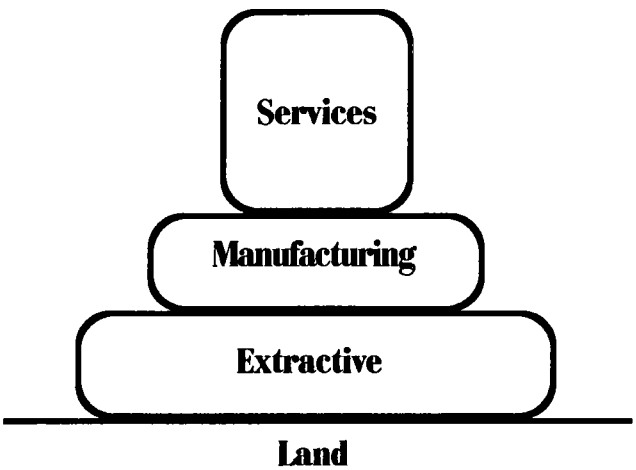
2. THE ECONOMIC STRUCTURE



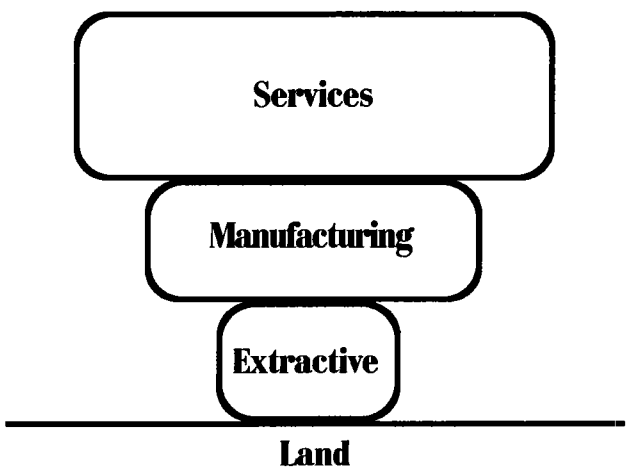
A. PRIMITIVE: In an underdeveloped or primitive economy, most economic activities are based on primary or extractive industries, such as agriculture, animal husbandry, etc. This condition exists today in a great part of the world, in the so-called "underdeveloped" countries.



B. DEVELOPING: As an economy develops and technology is introduced, more of the labor force is devoted to manufacturing. There is some increase in service industries, but the greatest increase is in the processing and refining of materials extracted from land.



C. ADVANCED: With further development of the economy, the greatest increase takes place in the service industries - professional, financial, domestic, governmental, etc. The U.S.A. is now said to be a "service economy." However, even in the most advanced societies, the economic structure still rests on the land.



D. PATHOLOGICAL: If there is interference with the free use of land, there is an unnatural restriction on production. People are then forced into the upper levels not from natural growth but because of the restriction below. Economic distress and unemployment result. The economic structure becomes unbalanced and may topple.

LESSON V - EFFECT OF PROGRESS UPON DISTRIBUTION

Reading Assignment: Book IV.

Having established the "statics" of the problem, i.e., the laws of distribution, we now proceed to the "dynamics", to see what forces are putting pressure on wages as society advances.

1. Name the changes which contribute to material progress. (228)

Effect of Increase of Population

2. What is the effect of increase of population upon the productive power of labor? (232)

3. What does increasing population tend to do to the margin of production? (232-233)

4. What is the effect upon rent and wages as proportions? (234)

5. Can increasing population raise rent as a quantity without reducing wages and interest as quantities? Explain. (234-235)

6. Is the increase of rent due to anything done by the landholder **as such**? (241)

7. To what is the increase of rent primarily due? (242. Read pp. 235-242, *"The story of the Savannah."*)

Effect of Improvement in Production

8. How do inventions and improvements in the productive arts save labor? (241)

9. What is the effect of labor-saving improvements upon total production? (245)

10. What is the effect of increased production upon the demand for land? (245)

11. How does the increased demand for land affect:

    a) the margin of production?

    b) rent? (245)

12. How do inventions counteract the fall of the margin? (245-249)

13. What is the effect of inventions upon:

a) rent as a proportion?

b) wages and interest as proportions? (252)

14. What is the effect of inventions upon:

a) rent as a quantity?

b) wages and interest as quantities? (251-253)

15. What is the effect on rent of governmental expenditures on roads, drainage, irrigation, bridges, etc.? Offer an example. (-)

Effect of Speculation in Land

16. As material progress goes on and rent advances, why is some land held out of use? (255)

17. How does withholding land from use affect the margin of production? (257)

18. Do the first settlers in a new area take only the land they can use? (256-257)

19. Is all the land in any city fully utilized? (257)

20. Need land be withheld from use completely to lower the margin? Explain. (257)

21. What is the effect of land speculation upon farm land near the city? (257)

22. Why is land speculation not always profitable? (258)

23. What is the effect of land speculation on the production of wealth? (258)

24. What is the effect of land speculation on:

a) rent?

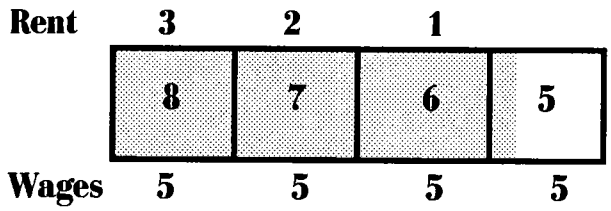
b) wages and interest? (259)

25. How does land speculation affect the person seeking to purchase a home? (-)

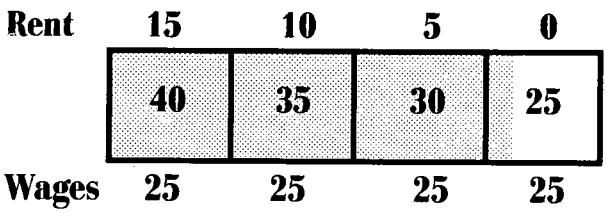
26. What is the limit to the speculative advance of rent? (260)

SUPPLEMENT - LESSON V
1. EFFECTS OF PROGRESS AND SPECULATION

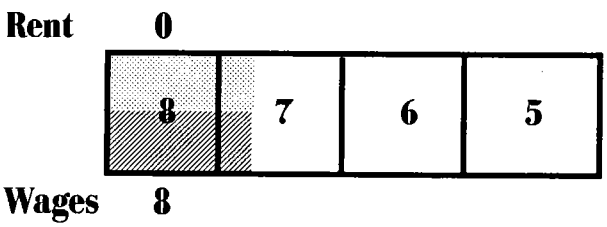
A. This chart represents a settled society using different grades of land, as in Chart D of Supplement to Lesson III. Primitive methods of production are still being used.



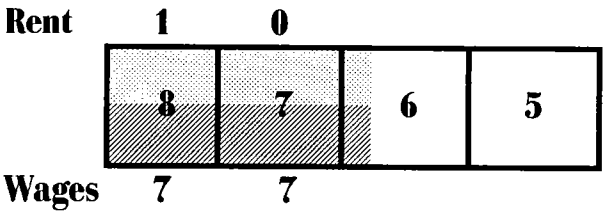
B. As material progress goes on, production on all grades of land increases, and all returns increase. This assumes that all shaded land is in productive use.



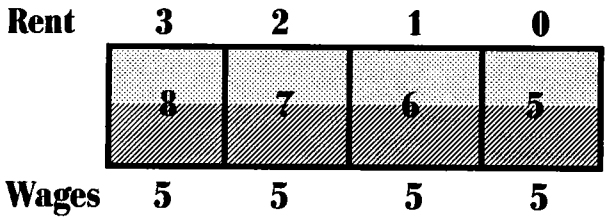
C. In reality, all land is not in use. The first settlers take more land than they can use, for speculation. (Cross-hatched areas represent land held for speculation.)



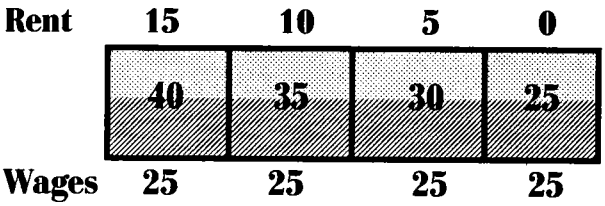
D. Thus the next settlers are forced to poorer land much sooner than they would be if land were freely available. They in turn take extra land for speculation.



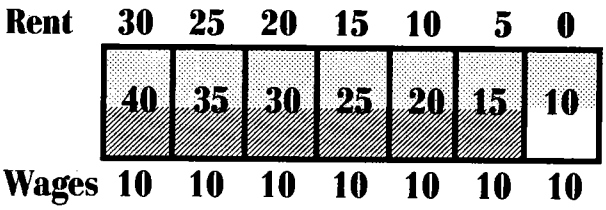
E. The process continues until all settled lands have large areas held for speculation.



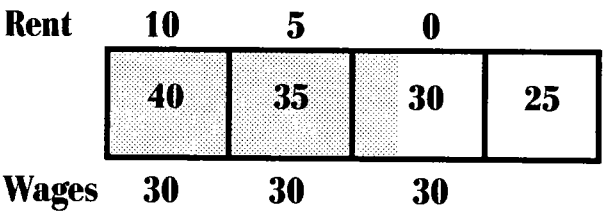
F. Increase of productive power, as in Chart B, but with speculation. Thus the same amount of land supports less population.



G. Further increase of population pushes settlement to poorer lands at an accelerating pace, lowering wages and increasing rent.



H. If there were no land speculation, the same population as in Chart G could move to better grade lands, thus increasing wages.



2. RENT AND SELLING PRICE

Rent - the return for the use of land - is the basic revenue from which land values are computed. Rent arises as lands above the margin come into use.

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

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

Selling price is a more specific term, denoting the amount that land brings when it is sold.

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

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

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

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

This may be expressed mathematically as follows: Selling price (P) multiplied by Interest rate (I) equals annual Rental (R). Or,

$$P \times I = R$$

Thus Rental divided by Interest equals Price: R/I= P. (In this example, "interest" is used in its commercial sense of "rate of return" rather than its meaning in Political Economy, which is the return for the use of capital.)

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

$$\frac{(R - T)}{I} = P$$

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

(Acknowledgment to Arthur S. Otis, *What Gives Value to Land*)

LESSON VI - DEPRESSIONS AND RECESSIONS - PROPOSED REMEDIES

Reading Assignment: Book V, especially Chap. 1; Book VI, Chap. 1 only.

Having seen the effects of material progress on the distribution of wealth, we are ready to apply our findings to the basic problem of poverty and depressions.

Depressions and Recessions

1. a) What is a depression? (264-265)

   b) What is a recession? (-)

2. Are recessions and depressions of current concern? (-)

3. What are some contributing causes of depressions and recessions? (263)

4. What does George state is the basic cause of depressions? (263-266)

5. What is the effect of land speculation on:

   a) the margin of production?

   b) rent?

   c) wages and interest? (264)

6. With increasing land speculation, what is the effect on production? (264)

7. How does a stoppage of production at one point affect other points of production? (264-265)

8. In an open market, what is the effect on production of:

   a) speculation in commodities?

   b) speculation in land? (267)

The Basic Cause of Depressions

9. What is trade? (268)

10. What is the result of a cessation of demand? (269)

11. Where must all production begin? (269)

12. What is the main obstacle which prevents labor and capital from producing? (273)

13. What three conditions contribute to restoring production after a period of recession or depression? (265 and 281)

14. When productive activity is resumed, what is the effect on land values? (281; also see supplement)

15. Is the problem of depressions and recessions essentially different from the general problem of poverty? (282)

Proposed Remedies

16. Name six measures frequently proposed for the alleviation of poverty. (300)

17. What effect would economy in government and reduced taxes have upon the general level of wages? (300-303)

18. Can skill, industry or thrift raise the general level of wages? Explain. (303-310)

19. When a labor union raises wages in a specific industry, what is the effect on the general level of wages? (313)

20. Can the general level of wages be increased by a complete combination of all working people? (313-316)

21. Can cooperative enterprises raise the general level of wages? Explain. (316-319)

22. What is George's objection to governmental regulation of the economy as a remedy for poverty? (319-321)

23. Have current governmental programs to eliminate poverty been successful? (-)

24. Can a more general distribution of land raise the general level of wages? (321-327)

(See Supplement, Part 2, for a discussion of some current theories and measures. In the next lesson we will take up Henry George's remedy.)

SUPPLEMENT - LESSON VI

1. DEPRESSIONS AND LAND VALUES

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

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

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

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

1871/73: Chicago fire and post-war boom. Population 187,000. Land values increased to $575,000,000. *Then came the third major depression.*

1876/92: Land values dropped to $250,000,000 in 1876. Production and building resumed. New frenzy of land speculation. Land values in 1892 estimated to be $1 billion. *Then came the fourth major depression.*

1909: Land values, after many industrial failures and great unemployment, shrank to a point only half as high as in 1890, though the population of Chicago was twice as great. Business improved and unemployment decreased.

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

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

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

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

SINCE THE 1930'S

Since the Great Depression, federal regulation of finances, securities and banks have sought to curb unbridled speculation. This, however, has had only small effect on land speculation. A more significant consideration is that since World War II there has been a "technological explosion" increasing productivity at a more rapid rate than has ever been attained before. This has for a while counteracted the impact of speculative rent - but the squeeze on wages and interest inevitably catches up. Land values have increased enormously and at a greater rate than other returns, leading to periodic recessions. One example is the home-building industry, in which the price of land has been an ever-increasing percentage of the price of the total home, leading to increasing difficulties for the home buyer and periodic stagnation of the

home-building industry. Difficulties have also increased for those seeking rented accommodations, with continually escalating rents. These problems persist in spite of changing governmental policies, interest rates, etc.

2. CURRENT THEORIES AND PROPOSALS

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

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

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

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

This theory does not take sufficient account of the real distribution of wealth. Unless labor and capital can reap an adequate return, the increase in money supply will not help them, as the same proportion will go to unearned income as now - probably even an increasing proportion.

Money is but a medium of exchange, not real wealth. Its existence or non-existence or supply is not a basic factor in the production of wealth and does not cause production to take place or not to take place. If there were no official monetary system, producers would invent one - as indeed has often been done.

A good monetary system is desirable, but it cannot cure economic ills that lie deeper. The effects of monetary remedies can only be superficial and temporary. This has been borne out by unsatisfactory results in carrying out monetarist policies.

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

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

LESSON VII - THE REMEDY; ITS JUSTICE

Reading assignment: Book VI, Chap. 2; Book VII, especially Chaps. 1-3.

The Remedy

1. What is the remedy proposed by Henry George for the abolition of poverty? (328)

2. a) What is "common property" in land?

   b) How does it differ from government property? (See supplement)

3. a) What are the tests to which Henry George proposes to put his remedy? (329)

   b) Which test does he put first? Why? (333)

Its Justice

4. Do all people have an equal right to life? (338)

5. Can human beings live without land? (338)

6. Do all people, therefore, have an equal right to land? (338-339)

7. Is there any justification for the absolute ownership of land by some to the exclusion of others? (339-340)

8. What constitutes the rightful basis of property? (334)

9. Is private property in wealth (the things produced by labor) justified by this principle? (334)

10. Is absolute private property in land in accordance with the rightful basis of property? (336-337)

11. Indicate which of the following would be morally justified as an exchange with the products of a person's labor:(-)

    a) Products of another person's labor

    b) Stolen goods

    c) Slaves

    d) Land

12. How does the term "real estate" lead to confusion in determining the rightful basis of property? (337)

13. a) What is the origin of land titles? (342)

b) Give one or more examples. (-)

14. Does priority of occupation give a person an exclusive and perpetual moral right to own land? (344)

15. In what way does absolute private property in land compare with chattel slavery? (347)

The Rent of Land

16. If land is justly common property, how can a person retain undisturbed possession and use of land and yet satisfy the equal rights of all? (344)

17. How does payment of rent to the community satisfy fully the equal rights of all? (343-344)

18. Does rent arise from anything the landowner does as landowner? (365)

19. Does rent justly belong to landowners? Why? (365)

20. To whom does rent justly belong? Why? (366)

21. How would private ownership of improvements and personal property (wealth) be affected by community collection of rent? (367)

22. What is the difference between community collection of rent and state ownership of land? (-)

23. Compare George's proposal with land distribution schemes currently advocated for developing countries. (See supplement)

24. Compare George's proposal with customary "left-wing", "right-wing" and "middle of the road" proposals. (See supplement)

SUPPLEMENT - LESSON VII

1. COMMON PROPERTY IN LAND

Basically there are three types of property: common, government and private.

Common property is that which belongs to all people in common; that which all have an equal right to use and enjoy.

Government property is that which belongs to the state and is subject to the direction of the government.

Private property is that which an individual (or group of individuals) has the exclusive right to own, profit from and dispose of as they see fit.

Common property is not government property. Common property in the ocean is generally recognized; the ocean does not belong to any government. And common property is different from private property. Common property permits of private use, but implies an obligation to the community since the rights of others must be recognized. ("Public property" is sometimes used to mean either common or government property; the context in which it is used must be seen in order to determine which).

By its very nature, land is common property and our laws and traditions already go far toward recognizing it as such. The principle of eminent domain asserts the superior claim of society to land. Sec. 1, Par. 10 of the New York State Constitution states: "The people of the State, in their right of sovereignty, possess the original and ultimate property in and to all lands within the jurisdiction of the State." English and American law generally recognize absolute ownership of goods but not of land. The law deals with the land "owner" as a land holder who holds land under the sovereignty of the people and is subject to their conditions.

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

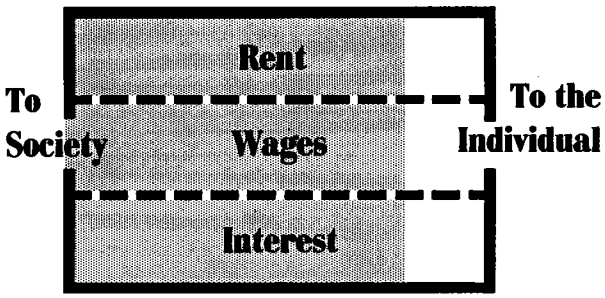
2. LAND DISTRIBUTION

Land distribution is currently a popularly proposed reform for underdeveloped countries, especially in Asia and Latin America. This reform usually consists of breaking up large estates, with compensation to landlords, and making small holdings available to tenants on supposedly favorable terms.

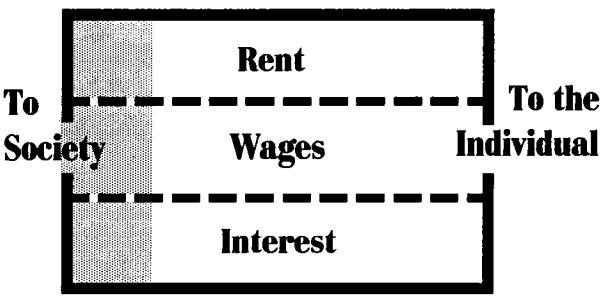
Thus several small owners - and private collectors of rent - are substituted for a few large owners. The rights of all are not established. Besides the injustice of paying compensation to landowners, this measure does not take into account the changes in society; different land requirements of different persons; fluctuating populations; changes from generation to generation; the tendency of rural workers to move into urban areas, etc. It may be added that with many of these reforms, the tendency to monopolization asserts itself and smaller holdings are taken over and absorbed into large estates.

The reform proposed by Henry George, on the other hand, establishes equal rights for all in the land, gives a person freedom to take as much or as little land as he or she can productively use provided the obligation to society is paid, and enables the economy to progress under free conditions.

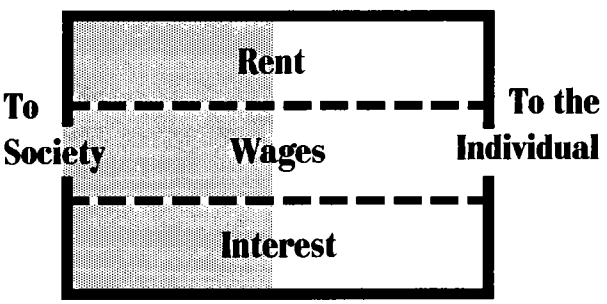
3. GEORGISM AND OTHER "ISMS"



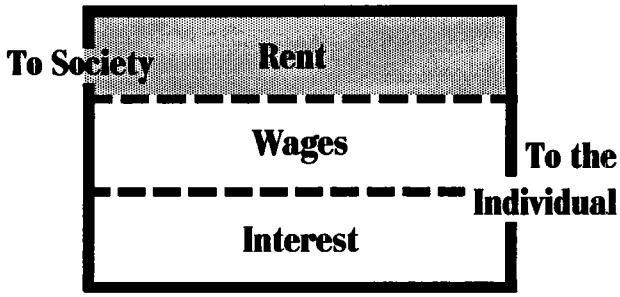
A. "Left-wing" proposals call for the taking by society of most of the wealth, making no distinction between rent, interest and wages, and leaving to individuals only a small proportion. In most cases this also entails a large measure of control by society over individuals, a "planned economy" and the curtailment of the freedom of the individual.



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



C. "Middle-of-the-road" proposals seek a "balanced system" in the distribution of wealth and power between individuals and society - but make insufficient distinctions between earned and unearned incomes, and do not carefully define the proper spheres of society and the individual. The result is usually a hodgepodge.



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

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

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

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

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

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

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

LESSON VIII - APPLICATION OF THE REMEDY

Reading assignment: Book VIII.

Ownership and Use of Land

1. What security does a person require to warrant building upon or cultivating land? (398)

2. Is absolute private ownership of land necessary to encourage the erection of buildings and the cultivation of land? (399-400)

3. Give instances of improvements made or production undertaken on rented land. (-)

4. How does the treatment of land as absolute private property stand in the way of its highest and best use? (401)

5. If land were treated as common property when would it be used? (401)

6. In working out a method for treating land as common property what right must be safeguarded? (398-403)

7. What methods might be employed to treat land as common property? (405)

Application

8. What objection is there to public purchase of land? (405)

9. Is it necessary to confiscate land? (404-405)

10. What is the practical method proposed by George for treating land as common property? (406)

11. How would land titles be affected by this proposal? (405)

12. What machinery already exists for the public collection of rent? (405)

13. What does George's proposal call for with respect to other taxes? (406)

The Canons of Taxation

14. What are the standards, or canons, to which taxation should conform? (408)

15. Name some types of taxes which fall upon production. (-)

16. How do such taxes affect production? (410)

17. What effect would the public collection of rent have upon production? (413-414)

18. Can a tax on land values be easily and cheaply collected? (414)

19. How does the taxation of commodities affect their price? (415)

20. Does a tax on rent enable the owner to pass it on to the user of land in the form of a higher rent? (416; also see supplement)

21. Does a tax on land values add to the price of commodities? (415)

22. What tax can be collected with the greatest certainty? (415-418)

23. Which conforms more closely with justice: Taxing wages or taxing rent? (420-421)

24. Which tax conforms most closely to all the canons of taxation? (420-421)

25. Can we separate the value of land from the value of improvements? (425)

26. If a tax on land values is the best method of raising revenue, what is required for its public acceptance? (429)

SUPPLEMENT - LESSON VIII

1. HOW LAND VALUE TAXATION CAN BE APPLIED

Henry George proposes to "abolish all taxation save that upon land values." (This has been called the "Single Tax.") We already take some rent in taxation and we only have to make some changes in our modes of taxation to take it all.

Example: Assume a present real estate tax of 3%, i.e., 3% on land and 3% on buildings. The change could be effected by gradually increasing the tax rate on land and gradually decreasing it on buildings. The first year, the land value tax could be stepped up to 3 1/4% and the building tax down to 2-3/4; and so on each year until, after a 12-year period, the tax rate would be zero on buildings and 6% on land. (We assume here that this would approximate the full rent of land, in accordance with method 2 cited at the bottom of this page.) Other taxes should of course be abolished progressively until a Single Tax is achieved.

The following chart shows the amount of property tax that would be paid for different properties under each system:

	A. Building - 0 Land - $10,000	B. Bldg. - $5,000 Land - $10,000	C. Bldg. - $10,000 Land - $10,000	D. Bldg. - $20,000 Land - $10,000
Present tax				
3% on building	$ 0	$150	$300	$600
3% on land	300	300	300	300
Total tax	300	450	600	900
Proposed tax				
None on bldg.	0	0	0	0
6% on land	$600	$600	$600	$600

It can be seen that under the present system the owner who keeps land idle (A) or underdeveloped (B) pays less than the owner who puts land to its full economic use (D). Under the proposed tax, A and B will pay more than at present, C will break even, and D will gain. Thus, the tendency will be to encourage improvements.

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

In the example used above, the value taxed is actually the selling price, of which it is assumed that 6% represents the full rent. With the full rent collected, however, the selling price would tend to go down to zero, as explained in the Lesson VI supplement. This can be overcome in three ways:

1) Leave a percentage of rent to the landowner, say 10% or $60 of $600 total rent, which may be capitalized at $1,000, and impose a tax of 54% on that amount, yielding $540 in tax. 2) Maintain $10,000 as the basic assessed land value regardless of diminishing selling price due to increased tax, and impose a tax of 6% on that. 3) Impose the tax directly on the annual rental value.

One possibility is to start by increasing the tax on selling price, as per Method 1; then when the process is far advanced, switch to a direct tax on rent, as per Method 3.

2. RELATED QUESTIONS

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

WOULD RENT BE A SUFFICIENT SOURCE OF PUBLIC REVENUE? The total rent of land in the United States has never been calculated. (Irregular assessment practices do not give the true value of land. Rent is also disguised in numerous ways: for instance, it figures largely in returns to stocks and bonds.) Some say that rent would be insufficient for total budgets, federal, state and local. But it is to be expected that the Single Tax would on the one hand produce great economies in government, and on the other hand result in greatly increased production of wealth, with an increase in all returns - rent, wages and interest. And so (if it does fall short at present) within a short time rent should meet all legitimate needs of government. There are those who say rent might exceed the needs of government. If so, the surplus could be used to wipe out the public debt and the balance distributed as a dividend to all citizens.

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

Another proposal is for each level of government to impose the tax directly on respective types of land - municipalities on land within their areas; states on land within their areas outside the municipalities, such as farm land; and the federal government on such natural resources as oil fields, mines, forests and waterways. In practice, this method is also partially observed.

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

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

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

LESSON IX - EFFECTS OF THE REMEDY

Reading assignment: Book IX.

Effects Upon Production and Distribution

1. What would be the effect on production if:
   a) taxes on wages and interest were abolished?

   b) land values were fully taxed? (433-436)

2. How would the returns to labor and capital be affected by:
   a) the abolition of taxes on wages and interest?

   b) the full taxation of land values? (436)

3. How would land value taxation affect aggregate rent? (436-437)

4. How would an increase of aggregate rent benefit the community under land value taxation? (436)

5. If the full rental value of land were taken in taxation, what would happen to:
   a) the selling price of land?

   b) land speculation? (436)

6. If taxes were placed only on land values, would a given piece of land be taxed the same whether it were used or idle? (437-438)

7. Under land value taxation, would it be necessary to pay large sums in advance, or to incur mortgages, in order to obtain land? (438)

8. What effect would the opening of better natural opportunities have on competition among laborers and on wages? (438)

9. How would increased wages affect labor's productive power? (444-445)

Effects Upon Individuals, Classes, and Society

10. How would further advances in material progress (inventions, increase of population, etc.) affect all classes under land taxation? (442-445)

11. How do the values of agricultural land compare with the values of town and city land of equal area? (450)

12. If only land values were taxed, what would be the effect on:
    a) the working farmer who owns a farm?

    b) the tenant farmer?

    c) the prospective farmer seeking a farm to buy?

    d) the absentee farm owner? (447-450)

13. Under land value taxation, how would the homeowner fare:
    a) in the taxes on house and lot?

    b) in selling house and lot?

    c) in buying a house and a lot? (447-450)

14. From what types of land would the largest public revenues be derived? (-)

15. With speculation in land removed, what would be the effect on the distribution of population? (451)

16. How would a single tax on land values affect the complexity of government? (454-455)

17. a) What are the chief economic reasons for the rise of "big government" today?

    b) How could "big government" be reduced under land value taxation?

18. What would be the functions of government under land value taxation? (454-456)

19. What does Henry George regard as a motive of human action even stronger than self interest? (458-463)

20. If involuntary poverty were abolished, would people tend to idleness? (466)

21. What is the greatest waste of society today? (469)

22. How would an environment which offered greater opportunities to all tend to change society? (470-471)

SUPPLEMENT - LESSON IX

LAND VALUE TAXATION AROUND THE WORLD

The following gives a brief account of various places throughout the world where land value taxation is partially applied and improvements partially or fully exempt. Nowhere has the principle of exclusive land value taxation (approaching the full economic rent), with abolition of all other taxes, been applied on a large scale. But partial applications indicate results commensurate with the degree of application.

Denmark - Although Denmark collects much revenue from taxes on incomes and products, she still collects about 50% of the total annual ground rent through various methods. A land valuation is held about every 5 years. Danish methods are as follows:

1. Rental of government-acquired land to farmers at 4% of its selling value. About 12,000 small farmers rent their land in this way.
2. Local and national taxation of land values, with consequent reduction of taxes on improvements.
3. A national tax on increases in land values.

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

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

The Capital Territory - The Commonwealth owns most of the land in the Capital Territory, including the capital city of Canberra. The government leases this land to private parties, and also levies a tax on its value.

Queensland - Most of the land in Queensland is owned by the state and is leased. It is also subject to local land value taxes. There is also a state land value tax on privately owned land. Improvements are not valued for tax purposes. More than 50% of the ground rent is collected. All local communities tax land values only.

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

Western Australia - Of the 147 local taxing units (municipalities and road districts) 32 tax land values only. The remainder tax both land and improvements, but in the 128 road districts, 84% of the revenue is from land values only. There is also a state land value tax which is heavier on absentee owners.

Other Australian States - South Australia has a state land value tax, with an additional penalty on absentee landholders. In addition, 8 incorporated cities, 11 counties and 8 district councils have adopted land value taxation. Victoria has a state and local land value tax. Twenty-four out of 198 local taxing units tax land values only. The result has been to bring idle land into use. Tasmania has a state land value tax but no local ones.

New Zealand - Like Australia, New Zealand has local taxes on land values. Local taxing units adopt it by local elections, and the majority of local units tax land values only. It has encouraged the good use of land and has helped break up large estates, assisting the small farmers. Recent complications in rating legislation have mitigated some of the good effects.

South Africa - Of the 60 cities in the Transvaal, 20 tax land values only. In the other 40, the tax on land values is higher than on improvements. Of the 65 municipalities in the Orange Free State, 15 tax land values exclusively for all city needs except water and sanitation. In Natal, 23 of the 35 municipalities tax land values at a higher rate than improvements. Results are impressive in Johannesburg which has new building continually going on. The system of land value taxation has contributed much to the economic strength of South Africa despite that country's unfortunate racial policies.

Canada - Various cities in western Canada tax land values at a higher rate than improvements. In british Columbia, 54 of the 104 municipalities exempt improvements 50%; 13 exempt them more than 50%. In New Westminster, 86% of the householders own their own property and land speculation has disappeared.

Alberta requires its 7 cities to exempt improvements 40% from taxation. The province taxes land values to some extent, including a land-transfer tax called an "unearned increment tax". The province obtains considerable revenues from oil leases, rentals and royalties (a form of land rent, which has made possible a "Heritage Fund.")

In Saskatchewan all but one of the cities and towns exempt improvement values 40%; Regina 70%. In rural municipalities land value taxation is the primary source of revenue. In Manitoba cities and towns exempt improvements one-third.

United States - The general property tax and the real property tax, insofar as they fall on land values, take for local or state purposes part of the ground rent in the U.S. In many cities the cost of streets, water mains, lights, etc., is charged to adjoining properties through special assessments. Government collection of royalties on mineral land, oil fields, etc., as well as public lands, recoup some ground rent. The federal government is obtaining an increasing revenue from these sources, amounting to many billions of dollars.

Pennsylvania - Fifteen cities in Pennsylvania now apply what is termed the "graded tax plan" whereby land is taxed at a higher rate than improvements, and the two largest among them, Pittsburgh and Scranton, have both raised the land tax considerably in recent years. This has been an important factor in Pittsburgh's "Renaissance II". The state permits cities of the third class (all the remaining cities except Philadelphia) to tax land and improvements at different rates. As the benefits of the graded tax, namely, more new construction and lower housing costs, become more and more apparent, many other Pennsylvania municipalities are examining the graded tax plan.

California - In 1909 the California legislature required new irrigation districts (and gave the option to established ones) to tax land values only, exempting improvements, crops, etc. Today over 100 districts, serving four million acres of the best farmland in the state and raising about 75% of its crops, follow this system. Speculation has been eliminated and agricultural production has been greatly encouraged.

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

Fairhope, Alabama - This is a colony operated by the Fairhope Single Tax Corporation which owns the land in Fairhope and leases it to its residents. With the economic rent it collects, the corporation pays property taxes levied by the state, county and city, and the remainder is used for public improvements. Fairhope has far outstripped its neighboring towns in growth.

The Three Ardens, Delaware - These are Arden, Ardentown, and Ardencroft. The land is leased to its users, and, as in Fairhope, local taxes are paid and the balance of the rent is used for public improvements. These towns are well-known as beautiful residential communities.

LESSON X - THE LAW OF HUMAN PROGRESS

Reading assignment: Book X and Conclusion.

The Law of Progress

1. Are different levels of civilization due more to differences which inhere in individuals or in society? (489-505)

2. What must the Law of Human Progress explain? (506)

3. What are the incentives to progress? (506-507)

4. What determines the amount of mental power devoted to progress? (507)

5. To utilize this mental power fully, what is the first essential of progress? (508)

6. What is the second essential of progress? (508)

7. What is the Law of Human Progress? (508)

Causes of Decline

8. How does disassociation of peoples tend to check progress? (510-511)

9. As society becomes complex, what conditions arise which may lead to inequalities? (516-517)

10. Are such inequalities a necessary result of social growth? (514)

11. How does the inequitable distribution of wealth and power tend to check progress? (518-519)

12. Does the Law of Human Progress (Association in Equality) account for the rise and fall of civilizations? (508)

13. Does political equality alone assure the equitable distribution of wealth and power? (530)

14. Cite some social conditions existing today which, if unchecked, may lead to a decline of civilization. (-)

15. How would these conditions be affected by Henry George's remedy?

The Central Truth

16. How does George's reform accord with the Law of Human Progress? (545)

17. What is the meaning of Liberty? (546-547)

18. What does Henry George regard as a problem even higher and deeper than the social problem? (555 et seq.)

19. a) Summarize the important points of the course.

b) Add your own evaluation.

SUPPLEMENT - LESSON X

1. REVIEW OF MAIN POINTS OF THE COURSE

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

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

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

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

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

This proposal is further justified by the fact that land values are produced by the growth and activities of the community as a whole, not by the efforts of landowners. The rent of land properly belongs to the community to defray communal expenses. Abolition of taxes on labor and the products of labor would enable producers to keep the full fruits of their toil.

Adoption of this proposal (called the "single tax") would greatly encourage production; wages and interest would rise; land, freed of the burdens of monopoly and speculation, would be easier to acquire for productive purposes and for homes; "booms and busts" would be replaced by continuous growth; governments would be greatly simplified.

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

2. ANSWERS TO TYPICAL QUESTIONS

(Adapted from *The Taxation of Land Values* by Louis F. Post)

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

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

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

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

Q. A rich man has a large mansion; a poor 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 reason in justice 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 have no place to live but by some landlord's consent. They would find it much easier to get a place to live under the Single Tax than now.

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

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

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

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

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

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