Henry George Institute

Applied Economics

Teacher's Guide



LESSON I

As in Fundamental Economics, *this lesson is for the student's guidance. Please do not return it to us. We ask you to first review the main points of* Fundamental Economics, *below. On the reverse side are some questions relating to the course in* Applied Economics *on which you may test yourself.*

1. Review of Fundamental Economics

Test your understanding of fundamental economics by answering the questions below without consulting your lessons or the book *Progress and Poverty*. Having completed this, you may then consult lessons and book to see how you have done.

1. What is wealth?

2. Name and define the three factors in the production of wealth.

3. Name and define the three avenues of distribution.

4. State the laws of rent, wages and interest.

5. What effect has material progress and increasing population upon rent, wages and interest?

6. What is the effect of speculation in land?

7. What is Henry George's basic remedy and what is his recommended method of applying it?

8. What is the Law of Human Progress, and how does George's remedy conform to this law?

2. Questionnaire, *Applied Economics*

Do not return this questionnaire but keep it and compare your answers now with your answers at the end of the course.

	First Lesson	Tenth Lesson
1. Is a tariff a tax?		
2. Can we safely eliminate all tariffs, quotas, reciprocal trade agreements and regulations?		
3. Would free trade benefit everyone in a country?		
4. Does unrestricted "dumping" of goods into a country throw people out of work?		
5. Is trade with an unfriendly country desirable?		
6. Is the income from government bonds economic interest?		
7. Do low wages mean low cost of production?		
8. Is trade within a country basically different from trade between countries?		
9. Does technology throw people out of work?		
10. Does increased production mean increased wages?		
11. Do public debts enable the government to borrow from future production?		
12. Should government be a guardian of the people's morals?		
13. Should government coordinate the production and distribution of wealth?		
14. Is subsidization of agriculture necessary?		
15. Is environmental sustainability compatible with a growing economy?		

Lesson 2 — Protection vs. Free Trade

Reading Assignment: *Protection or Free Trade*, Chaps. I - VIII

Protection as a Policy

1. What is meant by protection as a national policy? (28; 5 pts.)

The levying of duties or taxes upon imported commodities for the purpose of protecting from foreign competition the home producers of such commodities.

2. Is it correct to assume that the growth and prosperity of the United States have been due principally to protection? (23-24; 4 pts.)

Not unless a causal link can be shown between the two. The association of two phenomena does not prove that one causes the other; this is a common fallacy of spurious analysis.

3. Does the prosperity of a special interest group mean prosperity for the nation? (11-12; 4 pts.)

No. Special interests seek to benefit themselves, usually at the expense of the rest of the nation.

4. Does the prosperity of a protected nation mean prosperity for all nations? (29-30; 4 pts.)

No. In fact, it means that other nations can sell fewer of their products in the protected nation than they otherwise could.

5. What is implied about labor when protection for it is advocated? (21; 5 pts.)

That labor is inferior and dependent, and must be protected from competition.

6. Where in modern times has the principle of free trade been given its greatest extension? 915-16; 5 pts.)

In the United States. The Federal Constitution prohibits tariffs between states.

Implications of Protection

7. If the protective theory is valid, should it not be extended to include states, counties, cities, neighborhoods and even families? (30; 4 pts.)

Yes. It would simply be extending protection to its logical conclusion. Were it true, it would mean that the most productive economy would be one in which no trading took place at all.

8. What does the protective theory imply about international relations? (31; 5 pts.)

It implies an opposition of national interests; hence it militates against international cooperation and makes nations hostile toward one another.

9. How do most citizens of all countries react to the paying of customs? Why do they react in this way? (32-35; 4 pts.)

They seek to avoid it by all possible means — including bribery, perjury and smuggling — because their moral perceptions find nothing wrong with carrying goods across an imaginary border.

10. What is the aim of protection? (36; 5 pts.)

To prevent bringing valuable things into a country in order to compel the making of such things in that country.

11. What kind of international trade would protectionists permit? (40-43; 5 pts.)

The free importation of commodities that cannot be produced at home.

The Nature of Trade

12. Does a nation force its goods and services upon another when it exports them? (46; 4 pts.)

No. Trade is not invasion. There cannot be a trade unless the parties to it agree. It is, of course, possible for a controlling elite to force policies on the majority of working people in its country. But it will be seen that such exploitive policies more commonly enforce forms of protection than truly free trade.

13. What is the difference between a blockade and a tariff? (47; 5 pts.)

In wartime, blockading squadrons are a means whereby nations seek to prevent their enemies from trading. In peacetime, protective tariffs are a means whereby nations attempt to prevent their own people from trading.

14. Why do we want to trade? (50-51; 55; 5 pts.)

To satisfy our desires with the least effort.

15. Where do we find wealth first accumulating and civilization beginning? (52; 5 pts.)

Where trade can best be carried on. Cities arise next to harbors, rivers and highways.

16. How does the diversity of nature impel people to trade? (52-53; also Supplement; 4 pts.)

Nature's products are so distributed as to impel people to trade in order to more fully satisfy their desires.

17. How does trade between nations stimulate production? (58-59; 5 pts.)

It brings about increased efficiency due to specialization and economies of scale.

18. List a few things in your daily life that are produced in other countries. (5 pts.)

A listing might include tea and coffee, articles of clothing, radio and television sets, automobiles. It is also important to note that many complex products incorporate components that are made in one country and assembled in another.

Exchange and Tariffs

19. Is the exchange of goods a part of their production? Explain. (61-63; 5 pts.)

Yes. Production is completed only when goods reach the ultimate consumer. Exchange is part of the process of bringing goods to the ultimate consumer.

20. How does the "middleman" enable us to have greater economy in the production of wealth? (66-67; 4 pts.)

The "middleman" stores goods and enables us to buy them in small quantities at our convenience. The cost to us of obtaining and storing such goods otherwise would be prohibitive. He or she also makes goods available when and where they are wanted, and acts as a stabilizer of supply and demand in the market.

21. a) What was the original purpose of tariffs? (69; 4 pts.)

To raise revenue.

b) What is the difference between a tariff for revenue and a protective tariff? (69-70; 80; 4 pts.)

They differ in their purpose. A tariff for revenue depends upon the bringing in of commodities; protection aims at keeping them out.

Supplement — Lesson 2

Some Definitions

Wealth — Material products of labor that satisfy human desires and have exchange value. The production and distribution of wealth is the fundamental subject of political economy.

Money — A medium of exchange, or measure of value. Money does not directly satisfy human desires — but is useful in being universally exchangeable (within the borders of the issuing nation) for all goods and services.

Land — The entire physical universe, except human beings and their products. Land, labor and capital are the three fundamental factors of production.

Trade — The exchange of commodities for commodities. International trade is trade between parties of different countries. Trade may be carried on directly, called "barter"; or indirectly, through the use of money; but the trade is not completed until the money is again exchanged for commodities. Ultimately, all trade is barter — the exchange of goods for goods. Trade has been called "a two-way profit." It is a voluntary, freely entered contract in which both parties benefit. Each trading party gives up something less valuable in exchange for something more valuable.

Tariff — A levy or duty upon goods coming into a country, imposed by the government of that country. Also known as a custom duty. Tariff for revenue is primarily for the purpose of public revenue and is usually imposed upon imports not produced in the country levying such tariff. Protective tariff is for the purpose of protecting domestic producers against competition by foreign producers, and thus are levied on imports of goods which are also produced in the country levying such tariff. It is the latter type of tariff which is most in dispute. Ambrose Bierce, in *The Devil's Dictionary,* defines a protective tariff thus: "A scale of duties levied on imports, designed to protect the domestic manufacturer from the greed of his consumers."

Import — Any item of wealth brought into a country, usually for sale.

Export — Any item of wealth sent out of a country, usually for sale abroad.

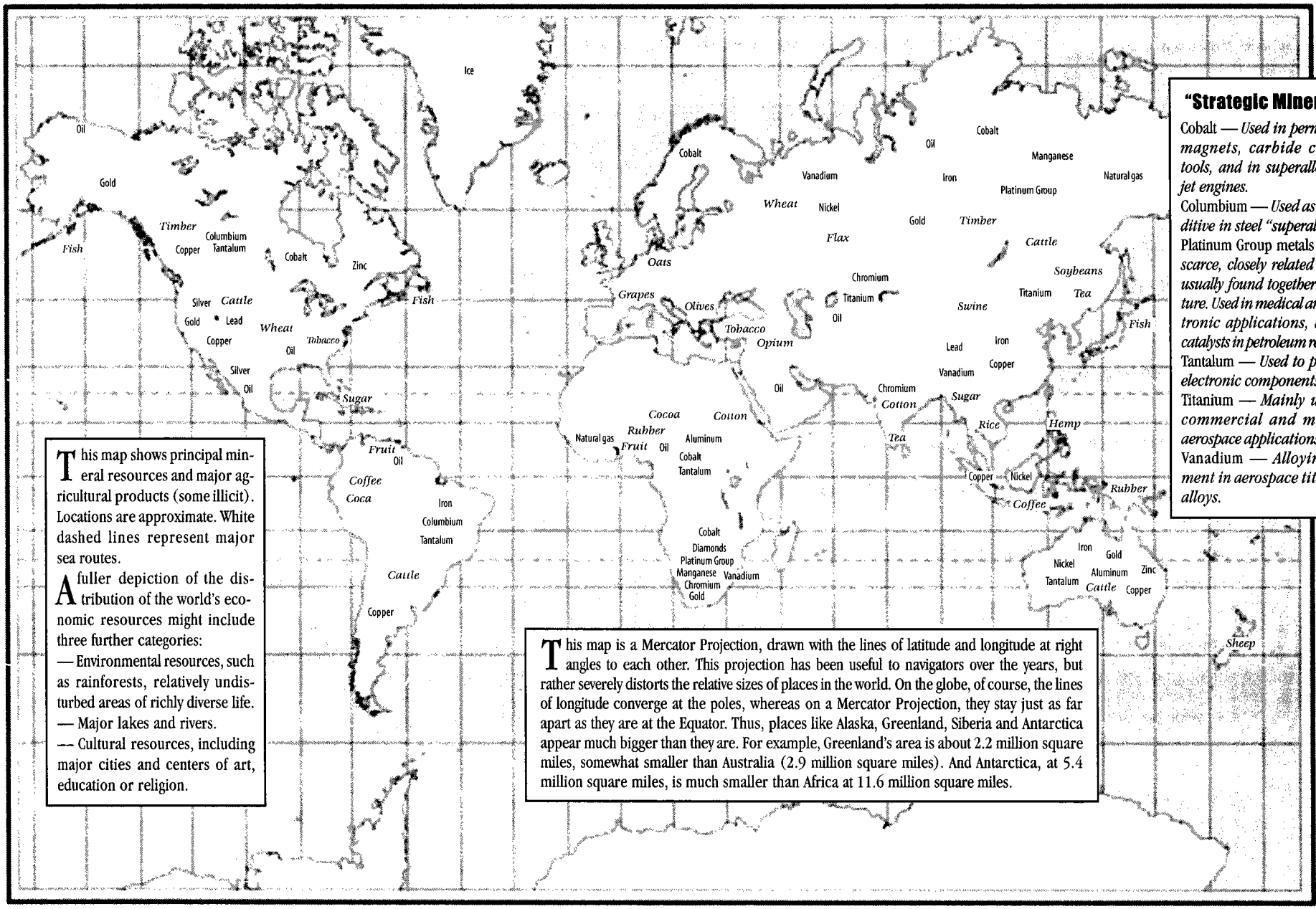
Balance of Trade — The ratio of exports to imports. A "favorable" balance of trade is said to occur when the value of a nation's exports exceeds that of its imports, so that other nations owe it money or gold. An "unfavorable" balance of trade is said to occur when a nation imports more in value than it exports and thus was money or gold to other nations. These are the commonly used meanings (derived from mercantilist doctrines), not those of fundamental economics. (See Lesson 3)

Balance of Payments — The amount of credits and debits accumulated from the total trade transactions of the people of one country with other countries, usually calculated annually.

Trade Agreements — These cover a variety of arrangements, all of which fall short of full free trade. The government of one nation my agree with the government of another nation to allow their respective citizens to exchange certain articles of wealth. Quotas are negotiated limitations on imports. Bilateral agreements are undertaken between two nations, and multilateral agreements are undertaken when several nations are involved. A trade bloc is a grouping of nations which have agreed to reduce or eliminate tariffs among themselves but erect a common tariff wall against other countries. Large monopolistic companies also make agreements among themselves on prices, supply, etc. These are known as cartels, and my occur internationally or within one nation.

Tax — A compulsory contribution levied upon persons, property or business, for the support of government. A direct tax is one paid directly to the government by the party or property-owner on whom it is levied. An indirect tax is one which the party on whom it is levied passes on to another party, usually in the purchase price of the item taxed. An *ad valorem* tax is one based upon the value of the thing taxed.

2. Distribution of the World's Resources



This map shows principal mineral resources and major agricultural products (some illicit). Locations are approximate. White dashed lines represent major sea routes.

A fuller depiction of the distribution of the world's economic resources might include three further categories:

— Environmental resources, such as rainforests, relatively undisturbed areas of richly diverse life.

— Major lakes and rivers.

— Cultural resources, including major cities and centers of art, education or religion.

This map is a Mercator Projection, drawn with the lines of latitude and longitude at right angles to each other. This projection has been useful to navigators over the years, but rather severely distorts the relative sizes of places in the world. On the globe, of course, the lines of longitude converge at the poles, whereas on a Mercator Projection, they stay just as far apart as they are at the Equator. Thus, places like Alaska, Greenland, Siberia and Antarctica appear much bigger than they are. For example, Greenland's area is about 2.2 million square miles, somewhat smaller than Australia (2.9 million square miles). And Antarctica, at 5.4 million square miles, is much smaller than Africa at 11.6 million square miles.

"Strategic Minerals"

Cobalt — *Used in permanent magnets, carbide cutting tools, and in superalloys for jet engines.*

Columbium — *Used as an additive in steel "superalloys"*

Platinum Group metals — *Six scarce, closely related metals usually found together in nature. Used in medical and electronic applications, and as catalysts in petroleum refining.*

Tantalum — *Used to produce electronic components.*

Titanium — *Mainly used in commercial and military aerospace applications.*

Vanadium — *Alloying element in aerospace titanium alloys.*

Lesson 3 — Economics of International Trade

Reading Assignment: *Protection or Free Trade,* Chaps. IX - XIII

Direct and Indirect Taxes

1. Define an indirect tax and give examples of such taxes. (70-73; 4 pts.)

An indirect tax is one which is passed on to the purchaser by the agent on whom it is levied. Examples: sales taxes, excise taxes, tariffs, transfer taxes.

2. Define a direct tax and give examples of such taxes. (70-73; 4 pts.)

A direct tax is one which is paid directly to the government by the party on whom it is levied. Examples: income tax, land value tax, inheritance tax, poll tax.

3. What are the advantages and disadvantages of indirect taxation? (78-79; 5 pts.)

Advantages: Gives largest revenues with least objections; easy to levy. ***Disadvantages:*** Costly to collect; regressive; discourages small business, thus fostering monopoly; lends itself to evasion and corruption.

4. On what class of people does indirect taxation bear most heavily? (71-72; 4 pts.)

On the poor. Indirect taxes must be levied on articles of the widest use in order to raise any considerable revenue.

5. How does indirect taxation affect small business? (75-76; 4 pts.)

It increases costs, thus discouraging small business. Large businesses have much greater volume of sales, and thus the tax penalty has a proportionately smaller effect on them.

Domestic Industries

6. Besides tariffs, what other methods could be used to protect domestic industries? (81-85; 4 pts.)

1) Destruction of imports.
2) Bounties (subsidies) paid to domestic producers.
3) Drawbacks (bounties paid on exports).

7. Compare the bounty (subsidy) system with the protective tariff. (82-83; 4 pts.)

The bounty system would entail a definite and visible cost. Aside from increasing general taxation, it would not discourage or handicap other industries. When its need, if any, were gone, it could more readily be revoked. (However, both tariffs and bounties lead to corruption.)

8. How do the advocates of protection claim that tariffs will encourage home industry? (87-89; 4 pts.)

By increasing prices and indirectly the profits of home industry. This is supposed to attract new producers into the industry.

9. How can we determine what industries are desirable in any community? (96-97; 5 pts.)

By their ability to survive in a free market.

10. a) What are some of the effects of protecting "infant industries"? (98; 4 pts.)

They never cease to be "infants." The larger they grow the more protection they demand.

b) Offer an example.(4 pts.)

The textile industry in the U.S. was one of the first to benefit by being "protected." Nearly two centuries later it is still highly vulnerable to foreign competition and demands further protection.

Exports and Imports

11. What would be the effect of keeping home markets for home producers? (103-106; 4 pts.)

It would limit the satisfaction of our desires to what we could produce ourselves, and we would thus refuse to take advantage of the production of other countries.

12. Do the people of a country profit when their trade is restricted to their own products? Explain. (106-111; 5 pts.)

No more than an individual profits when he refuses to trade with other individuals, thus denying himself the advantages of the division of labor. (see Lesson II, Question #7)

13. What is the common meaning of:

a) a favorable balance of trade? (3 pts.)

An excess of the balance of exports over imports.

b) an unfavorable balance of trade? (112; 3 pts.)

An excess of the value of imports over exports. (See #20)

14. If a "favorable" balance of trade resulted in prosperity, when would a country be most prosperous? (112-114; 5 pts.)

When everything was exported from that country and nothing was imported.

15. How are exports and imports correlative? (116; 5 pts.)

Each is the cause and complement of the other, and to impose any restrictions on the one is necessarily to lessen the other.

16. When is international trade profitable to all countries engaged in it? (116; 4 pts.)

When each country exports commodities that it produces cheaply to countries where they are dearer.

17. If we were to stop imports entirely, what exports would continue to drain the national wealth? (119-122; 4 pts.)

Interest on bonds and other obligations, rent for domestic land owned by foreign owners; property passing by will or inheritance to people abroad.

The Function of Money

18. How does the idea arise that a nation loses from importing goods and gains from their exportation? (123-124; 4 pts.)

It arises from personifying nations. Exports are regarded as sales and imports are regarded as purchases. The more the sales and the less the purchases, the better the business. (Question #20 straightens this out.)

19. What is the function of money? (125-127; 5 pts.)

It serves as a medium of exchange, thus facilitating the trading of commodities. Money does not directly satisfy human desires.

20. a) How did the habit of thinking of gold and silver as the only real wealth arise? (127; 4 pts.)

In times when life and property were less secure, it was important to have something readily concealed, conveniently carried and speedily exchanged. Thus gold and silver symbolized wealth.

b) How does this idea help support the protective theory? (128; 4 pts.)

By regarding nations as merchants competing with one another for the gold of the world.

21. How can international currency markets facilitate trade? (Supplement; 4 pts.)

By stabilizing fluctuations in the demand and supply of various national currencies.

Supplement — Lesson 3

How Does International Trade Work Today?

The short answer is: exactly as it has always worked. People buy goods from other nations because they are more attractive goods at lower prices. International trade enables people to realize the advantages of differing natural endowment, specialization and economies of scale in production.

However, it is easy to become confused about these issues! One can read the chapters from *Protection or Free Trade* covered in this lesson, follow the logic of George's argument, and believe one is coming to grip with these questions. But then, if we turn to any conventional report or analysis of today's economy, everything we just learned will appear to be wrong! Has Henry George been superseded? If trade is a voluntary exchange, and consumers benefit from the importation of desirable foreign goods, then why are "trade deficits" painted as such a bad thing? What is "unfavorable" about an unfavorable balance of trade?

As we know, an "unfavorable" balance of trade is when a nation imports more, in a given year, than it exports. Of course, international trade is not something that is directed at the national level; a nation's "trade balance" is actually the overall total of millions of individual transactions. Because consumers were able to buy lower-priced goods from abroad, they had more money left to spend on other goods and services. So, the whole economy benefitted from the cheaper imports; people got more of what they wanted.

"But—" shout the nay-sayers, "this cannot be sustained!" If exports are down, then the industries that make goods for export will have to cut back. Jobs will be lost. Where will these people find work? How will they continue to buy all those imports?

"Strong" and "Weak" Currencies

Often a nation will experience a trade deficit when its currency is "strong" — when demand for its currency is high, relative to other currencies. If the Dollar is strong relative to the Japanese Yen, for example, goods that are priced in Yen will be relatively cheap in the US, and the US will likely have a trade deficit with Japan.

The thing that makes a currency "strong" is simply the level of demand for it, in international money markets. Speculators buy and hold currencies based on their guesses of whether it will rise or fall in value. Many factors, political and economic, domestic and international, can influence the "strength" of a currency. Money markets serve to regulate the supply and demand of various national currencies — and, theoretically at least, even out imbalances of trade among nations.

If a nation ends a year with a trade deficit, it will most likely have a balance-of payments deficit. That means it has paid out more money for foreign goods than it has collected in payment for its exports. When this happens, there is an excess of (let's say) dollars in international currency markets. Because of this oversupply, the dollar will drop in price (it will "weaken"). Then, US exports will become relatively more attractive to foreign consumers, and the trade deficit will be reversed.

That's what theory says, anyway. But the fact is that the United States has had a trade deficit every year from 1976 to the present (2001) — through periods of boom and bust alike. How can that be?

The answer lies in the pre-eminent financial status of the United States in the world economy of today. The US dollar has become valuable in more ways than its normal function as a claim on goods and services in the US. *Newsweek* economist Robert Samuelson explains this:

> *People need dollars to trade and invest. This demand props up the dollar's exchange rate. U.S. exports become more costly; imports to the United States become cheaper. We record a trade deficit. In reality the rest of the world is paying us, through an excess of imports, for the services the dollar provides. One service is as everyday cash in some countries. Dollar bills have traveled to countries like Peru, Russia and Turkey.... People distrust their own money, because inflation or political instability threatens its value.*

So, the United States must borrow to finance a virtually perpetual balance-of-payments deficit — yet on balance, this difficulty is far outweighed by the benefits of international trade. Consumers benefit from relatively cheap imported goods — and the US banking industry benefits from the leverage wielded by the issuer of the world's pre-eminent currency.

But what about those export jobs?

If the United States can maintain economic expansion and job growth in the face of annual trade deficits, then the jobs that are lost in export industries must be being replaced. But what about other nations, nations that lack the power and perks of the US? Mustn't they maintain their exports?

In a country with high inflation, goods imported from a country with relatively stable prices will be less expensive. Conventional wisdom holds that if too many imports are purchased in favor of higher-priced local goods, the economy will contract.

But why would that be so? We have seen that in the United States the loss of export jobs was offset by the creation of new domestic markets. Why could this not happen in another country as well?

The only reason could be that beyond those lost export industries, no other economic opportunities existed. Yet we see that in every country in the world today, natural resources are held out of use, and capital goods are underutilized. We cannot blame unemployment on a loss of export production if, at the same time, labor is being denied access to economic opportunities.

International Finance: The World Bank and International Monetary Fund

The term "Bretton Woods" is often mentioned, in connection with international economics. What does it mean — and what are the roles of the two "Bretton Woods Institutions", the World Bank and the IMF?

Bretton Woods, to begin with, is simply the name of the meeting place in New Hampshire where represntatives of the Western Allies met just before the end of World War II. The meeting set up, under the tutelage of the renowned economist J. M. Keynes, a new world monetary system. The United States adopted a gold standard, and agreed to exchange its currency for gold at the rate of $35 per ounce. Other nations either adopted the gold standard as well, or pegged their currencies' values to that of the US dollar, with minor adjustments permitted.

The system facilitated trade among the Western nations (among whom the newly-rebuilt economic powerhouses of West Germany and Japan soon became included). Ultimately, however, it became apparent that the US dollar was undervalued; gold reserves were being drained out of the United States, and the gold standard was officially dropped in 1973. Since then, currency values have been allowed to float on international markets. The major international currencies, however, have been cushioned with a "managed float" policy: nations have agreed to use their central banks to help stabilize sharp fluctuations in exchange rates.

Two international financial institutions were set up as part of the Bretton Woods agreements. Although both have most of the world's nations as members, they are both headquartered in Washington DC, and because influence is ranked according to financial input, the US and its allies effectively govern their policies. The World Bank was set up mainly to lend funds to developing nations; since the 1940s it has loaned more than $330 billion. Most of these loans have failed to achieve their objectives, and have little chance of ever being repaid. In the 1980 the World Bank began to make many so-called "structural adjustment" loans to developing countries; in effect these were the restructuring of bad debts, often carrying conditions requiring harsh "austerity policies" in the debtor nations.

The International Monetary Fund was set up to monitor international currency exchanges and to make short-term loans to nations having temporary problems meeting their balances of payments. In recent years the IMF has expanded its functions into areas that overlap the mandates of the World Bank — for example, it has made large loans to "bail out" investors caught up in speculative debt crises in Mexico and East Asia, and to avert debt crises in Russia.

Lesson 4 — Protection, Profits and Wages

Reading Assignment: *Protection or Free Trade,* Chaps. XIV - XXI

Protection and Profits

1. What belief induces working people to support protection? (135; 4 pts.)

The belief that the products of the lower-paid labor of other countries could undersell the products of our higher-paid labor if free competition were permitted.

2. Does low-priced labor necessarily mean low cost of production? (138; 4 pts.)

No. As a rule, low-priced labor means inefficient labor, and therefore high cost of production.

3. In which countries do we find the cheapest cost of production? (138; 4 pts.)

In those countries where wages are highest and consequently labor most efficient.

4. Suppose one country produced all things better than another country. Would it be mutually profitable for them to trade with one another? Explain. (145-147; also see Supplement; 5 pts.)

The country of greater advantages would import from the country of fewer advantages those products between which the difference of advantage was least, and would export in return those products between which the difference was greatest. By this exchange both peoples would gain. (This is known as the Law of Comparative Advantage. A simple example would be a doctor who can type faster than his secretary. It is still advantageous to him to hire a secretary because his time can be better spent at his practice; the secretary gains a job, and the community benefits.)

5. Can a country benefit from free trade without waiting for other countries to adopt the same policy? (149-150; 4 pts.)

Yes. A country that adopted free trade would simply be allowing its citizens the freedom to trade advantageously. They would thus benefit.

6. Is industrial development the result or cause of the growth of population and wealth? (150-160; 4 pts.)

The result. Simpler industries come first, and with the progress of society, form a basis for more advanced industries.

7. What is the effect of legislative encouragement or restriction of any one industry on the production of wealth? (163-164; 4 pts.)

To divert labor and capital from industries in which the return is greater, to others in which it must be less, and thus reduce the aggregate production of wealth.

8. Does protection succeed in increasing the profits of those industries which it is designed to encourage? (166-169; 4 pts.)

No. A tariff raises the price of the protected product, thus lowering the demand for it and lowering the profits of the protected industry.

9. Why cannot any business open to domestic competition gain a permanent advantage from protective tariffs? (170-172; 5 pts.)

Competition forces profits to a common level.

10. In which industries do protective tariffs result in greater profits? Give examples. (171; 4 pts.)

In those that enjoy monopoly privileges. Examples: oil, meat-packing, watchmaking, lumber, chemicals.

11. What is the most fundamental monopoly? (172-173; 4 pts.)

The land monopoly.

12. Do the larger profits resulting from protection in monopolistic industries go to the producers? (174-177; 4 pts.)

No. They go to the owners of land from whom the producers must secure both their materials and a place in which to do business.

13. How has protection retarded production? (183; 4 pts.)

Protection increases the price of products, thus retarding production. These increased prices also hinder people in other nations from buying a country's products.

Protection and Wages

14. a) What is the effect of protection on prices? (4 pts.)

To raise them.

b) What is the effect of the resulting prices on wages? (197-199; 4 pts.)

To reduce real wages. A tariff will increase the amount of labor for which the protected commodity will exchange. Hence it reduces the price of labor to the extent that it increases the price of the commodity.

15. a) Are wages determined by competition in the goods market? (199-200; 5 pts.)

No. They are determined by competition in the labor market.

b) Is the aim of protection to lessen competition in the labor market or in the goods market? (204; 4 pts.)

In the goods market. Employers in protected industries, as well as in others, buy labor as cheaply as they can.

16. How can wages be raised briefly and in a small way by tariffs? (209-210; 4 pts.)

When a new tariff increases the demand for a certain domestic product, there is a sudden increase in the demand for a certain kind of skilled labor, and wages will rise. The attraction of more laborers by higher wages will soon reduce them.

17. To raise the general level of wages, at what level must we begin? (211-213; 5 pts.)

At the level prevailing in those occupations which require the least skills. These are the ones in which people apply their labor directly to nature.

18. Can a tariff on agricultural products raise wages? Explain. (213; 4 pts.)

No. Such a tariff can only raise the rent of land, as it reduces competition among landowners.

19. Compare wages in protected industries with wages in unprotected industries. (215-216; 4 pts.)

Wages are no higher in protected than in unprotected industries.

20. Would it be unjust to abolish protection all at once? (217; 4 pts.)

No. No one can acquire a vested right in a wrong; no one can claim property in a privilege.

21. What has been shown so far regarding

a) the tendency of free trade? (4 pts.)

The tendency of free trade is to increase the production of wealth, thus permitting an increase in wages.

b) the tendency of protection? (226; 4 pts.)

The tendency of protection is to decrease the production of wealth and to foster monopolies.

Supplement — Lesson 4

1. Comparative Advantage

Henry George says in *Protection or Free Trade:* "Let us suppose two countries, one of which has advantages superior to the other for all the productions of which both are capable... The people of the country of greater advantages would import from the country of less advantages those products as to which the difference of advantage between the two countries was least, and would export in return those products as to which the difference was greatest. By this exchange both peoples would gain."

This illustration, "The Island and the Continent", is adapted from *The Philosophy of Freedom* by Gaston Haxo.





Productivity: Island, 1 bushel or 2 cases
Contintent, 2 bushels or 10 cases

On the island a worker will produce in a given time one bushel of widgets or two cases of gadgets, while on the continent the same amount of labor, in the same time, will produce two bushels of widgets or ten cases of gadgets. Therefore, both products are cheaper on the continent than on the island.

At first thought it might appear that the continentals cannot possibly profit by any importation from the island and that if there is to be any trading it must be all one way. Protectionists will recommend that the islanders adopt a tariff, for unless they have one the island will be flooded with the cheap goods of the continent; their home industries will be condemned to idleness, and their laborers will be out of work.

Here is the production of widgets and gadgets in the two countries with 3000 workers employed in each, using the productivity figures stated above. No foreign trading is contemplated:

Island:
2000 workers produce 2000 bushels of widgets;
1000 workers produce 2000 cases of gadgets



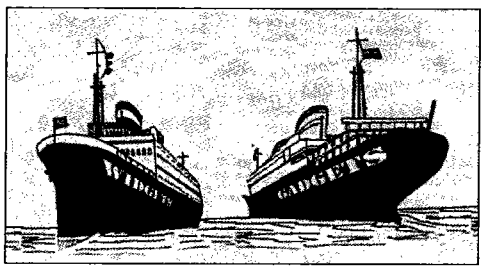


Contintent:
2500 workers produce 5000 bushels of widgets;
500 workers produce 5000 cases of gadgets

However, shoppers for gadgets and widgets are always looking for bargains. Exchange is not determined by the absolute cost of production but by the relative cost. The labor cost of widgets in the two countries is in the ratio of two for the island to one for the continent, while the labor cost of gadgets is five to one! So, it will pay the islanders to supply widgets to the continentals in exchange for gadgets — and both will benefit.

Entrepreneurs will examine the situation and revise their production plans with trading in mind. The islanders set aside their ill-advised attempts to compete in the gadget market; instead, 250 workers are added to those producing widgets for home consumption, and 750 workers produce widgets for export. On the continent 250 workers are shifted from widget production to state-of-the-art gadget factories. Of these 225 produce gadgets for export.

So the island ships 750 bushels of widgets to the continent, and the continent ships 2,250 cases of gadgets to the island.



Now, each country has employed the same 3000 workers, but instead of making the mistake of producing everything "here at home," each did the sensible thing and produced more of their more profitable item and less of their less profitable item and traded their surplus. Both the islanders and the continentals have 250 more bushels of widgets and 250 more cases of gadgets than they would have had with the same amount of labor, had there been no trading!

Island:
2250 bushels of domestic widgets;
2250 cases of imported gadgets





Contintent:
5250 bushels of widgets (750 imported);
5250 cases of gadgets

2. United States Trade Policy

Tariffs have been part of United States policy since the founding of the Republic in 1789. The protection-versus-free-trade issue also dates from the beginning of the nation. Alexander Hamilton advocated protectionism and Thomas Jefferson advocated free trade. Protectionist policy was supposed to be beneficial to manufacturing industries, in the belief that keeping out foreign competition would help build up American "infant industries." (Henry George deals with this question in Chapter X of *Protection or Free Trade).* Free trade policy was generally advocated for the benefit of US agriculture which would presumably be helped by the import of cheaper manufactured goods from abroad.

This sectional division of economic interests persisted through the Civil War, when the agricultural South was free-trade, and the industrial North protectionist. However, in the nation as a whole, both before and after the Civil War, tariffs kept rising steadily (with the exception of reductions in Cleveland's and Wilson's administrations) until it reached its highest point with the Hawley-Smoot tariff of 1930. With imports sharply curtailed, the rest of the world stopped buying from the U.S. and international trade collapsed.

To ameliorate the situation, the Reciprocal Trade Agreement Act was passed by Congress in 1934, and since then the U.S. has negotiated agreements with other countries whereby there is a mutual lowering of tariffs.

In 1947, the General Agreement on Tariffs and Trade (GATT) was started, with 23 nations, including the US. Instead of bilateral agreements, GATT introduced multilateral agreements whereby a number of nations negotiate with one another simultaneously. In the 1990s, after decades of negotiation, the expansion of GATT known as the "Uraguay Round" (named for where the negotiations began) was ratified. This agreement further lowered tariffs, and included controversial provisions prohibiting other "barriers to trade". An international trade body, the World Trade Organization (WTO), was set up under GATT to ajudicate disagreements.

The North American Free Trade Agreement (NAFTA) was introduced in 1993. It calls for "free trade" (subject to some 300 pages of regulation and interpretation) between Canada, Mexico and the United States. It has been surrounded by controversy. As with GATT, provisions of NAFTA are criticized as favoring the interests of multinational corporations, rather than merely creating a level playing field. Particularly, provisions under these agreements which characterize the adoption of health and safety regulations (or the allowing of collective bargaining) as "nontariff barriers to trade" have been bitterly criticized. Under the NAFTA/GATT agreements, nations engaging in such "nontariff barriers" may have punitive tariffs against their exports to other nations. This can pose a serious problem to a debtor, developing nation whose foreign exchange depends on a small number of export goods. (We will examine these issues more fully in the next lesson.)

Throughout the decades of the "Cold War", political motives had a huge effect on trade policy. For example, the US has long maintained a free trade policy with Israel, while it has utterly refused to trade with Cuba at all. The Trade Expansion Act of 1962 and the Trade Act of 1974 sought to expand trade with the rest of the world; however, they gave preferential consideration for political allies — and promised aid to industries and laborers "hurt" by increased trade. In 1979 were passed the Export Administration Act and an Amendment to the Tariff Act of 1930 relevant to imports. Both laws increased political involvement not only with respect to imports but also exports.

The importance of tariffs as public revenue has declined in the United States (although they still provide significant revenue in many nations). Tariffs once accounted for nearly 50% of federal revenue but have since dwindled to about 1%. The main motivation today is not revenue but economic and political policies. These are implemented not only by tariffs but by exchange controls, quotas, etc.

Traditional economic worries still underlie trade policies. Despite strong support of freer international trade, there is still the basic fear of "flooding the market with cheap foreign goods", unemployment, closed industries, etc. Whereas in the 19th century it was mostly industrialists who pressed for high tariffs, today organized labor joins the chorus. Until this basic economic fear can be eradicated, there is not likely to be a genuine move toward full free trade.

Lesson 5 — Trade, Development and Sustainability

Reading Assignment: *Lesson Supplement*

1. What are some of the problems in today's economy that are blamed on "free trade"? (4 pts.)

Loss of manufacturing and other high-wage jobs, exploitation of foreign workers, increasing pollution and degradation of the environment.

2. a) What are some reasons why corporations tend to get bigger? (4 pts.)

They respond to competitive pressures by increasing economies of scale — and by using the influence gained by playing a larger role in the economy. A larger company can take advantage of greater budgets for advertising. Conglomerates can assure market share by threatening to withdraw not just one product, but a whole product line. For example, a small cola-beverage maker might be competitive with a popular national brand of cola drink — but if the large company withdrew an entire line of soft drinks and snack foods, stores would not be willing to carry the single competing brand.

b) When do these processes actually benefit consumers and workers? Explain. (4 pts.)

When there is unhindered competition among suppliers of goods. Economies of scale tend to benefit consumers by making goods available at lower prices.

c) What are some factors that can make a large corporation less efficient and profitable? (4 pts.)

Layers of management can become entrenched, despite their lack of productivity. The exorbitant salaries of many CEOs are notorious. Also, once corporations have used their influence to gain public protection or subsidy, their inefficiencies become masked by the resulting articially high prices.

3. a) Historically, which has come first, higher wages, or higher worker productivity? (4 pts.)

Higher wages. Although there are many other influential factors, higher-paid workers have always tended to become more productive.

b) Is this changing today? If so, how? (4 pts.)

Techniques that were initially developed to make high-wage labor more productive are being employed in low-wage labor markets.

4. What are some ways in which labor unions are weakened by globalization? (4 pts.)

The bargaining power of unions is weakened because of management's increasing ability to "out-source" production to other countries. Labor unions traditionally are organized within one nation, but management is increasingly able to use an international labor market.

5. What are some of the non-labor costs that businesses seek to avoid by moving operations to other countries? (4 pts.)

The costs of environmental, health and safety regulations, the taxes that fall on various stages of the production process, and the high cost of real estate.

6. Why did the governments of less-developed countries tend not to productively invest the money they borrowed? (4 pts.)

Because investment decisions were not made with respect to markets or the needs of working people, but by ruling elites seeking to maintain their control over their societies.

7. Are multinational corporations to blame for the poverty of LDCs? (4 pts.)

Yes, to the extent that their activities have contributed to government policies that have worsened the poverty or contributed to repression. But in most cases, the post-colonial situation of a majority of poor, uneducated peasants ruled by a small wealthy elite predated the arrival of the multinationals.

8. How can protectionist policies wipe out the gains of comparative advantage in international trade? (4 pts.)	By artificially raising the prices of the protected/subsidized products high enough that producers can make a profit, despite the comparative disadvantage.
9. What are some of the political impediments to development in LDCs? (4 pts.)	Extreme concentration of land holding and wealth distribution; crime and corruption; militarism and brutal suppression of dissent.
10. What is the primary cause of poverty? (4 pts.)	Low wages at the margin of production.
11. Why have some nations prospered while others failed to develop? (4 pts.)	They have instituted land reforms and removed many coercive controls on the free economy. (In addition, Japan after World War II was freed from the deadweight loss of military spending.)
12. a) What is the fundamental characteristic of a truly free market? (4 pts.)	Voluntary exchanges.
b) How do polluters infringe on the rights of others? (4 pts.)	They use natural resources, which belong to everyone equally, as a dumping ground for their own private benefit, without compensating the community for the damage caused.
13. Why is environmental policy a problem with free trade? (4 pts.)	Because nations have widely different environmental policies.
14. For international trade to properly incorporate a non-coercive environmental policy, what must be done first? (4 pts.)	There must be an international agreement on common charges for environmental destruction.
15. Why have market-based pollution charges not yet been widely implemented? (4 pts.)	Because the use of air, water and soil has a dumping ground has been regarded as a free good. The cost of such pollution has been borne by the entire society, and governments have not moved to create a market in pollution-absorbing services.
16. What is the difference between a "carbon tax" and a charge for the pollution that comes from buring fossil fuels? (4 pts.)	A carbon tax is a tax on the consumption of fuels. A pollution charge is a fee for the use of a natural resource as a dumping ground. If the same quantity of fossil fuel is used more efficiently, pollution charges will be reduced, but carbon use taxes will not be.
17. What are three ways in which the costs of pollution can be assessed? (4 pts. each)	1) By tallying up the explicit costs attributable to a particular pollutant, and setting charges on quantities based on that cost. 2) By assuming that the cost is infinite, over all future time, and setting the charge based on budgetary desires. 3) By assigning private property in the resource and charging the private firm a rent based on fees for pollution dumping.
18. What is the essential nature of national boundaries? (4 pts.)	They are arbitrary political demarcations.
19. Why did the business community recognize the essential nature of national boundaries more readily than other segments of society? (4 pts.)	Because there was profit in it for them. Businesses that failed to take advantage of international opportunities would be placed at a competitive disadvantage.

Supplement — Lesson 5

Trade, Development and Sustainability in the "Global Economy"

The "free trade" question remains, as it has been for centuries, one of the most muddled and polemicized questions in all of public policy. That is not surprising, for it touches on two perpetual pressure points: economic opportunity, and national sovereignty/defense. In recent years, a third vital concern has been added to the list of things thought to be imperiled by "free trade": the environment. Now, therefore, many people are united in their distaste for "free trade". A great deal of well-publicized controversy has surrounded the recent implementation of the North American Free Trade Agreement (NAFTA), the "Uruguay Round" of the General Agreement on Tariffs and Trade (GATT) and the European Community. Bitter controversy has also surrounded the issue of trade between the US and nations it judges to be unworthy of support, such as China, South Africa, Cuba and Iraq. The US's record in such matters has been inconsistent, to say the least.

Clearly there is a strong constituency in favor of removing trade restrictions. But there is also a strong and growing backlash of people who, although perhaps not ready to support protectionism *per se,* are deeply suspicious of the perils they see in unrestricted international markets.

And perils there are. High-wage manufacturing jobs are lost, to be replaced by low-wage, low-security "service sector" work. Manufacturing is done, more and more, by workers in developing countries where wages are vastly lower. Multinational corporations, seeking to lower costs and raise profits, "out-source" parts of their production lines to the places with the lowest costs of labor, safety and environmental regulation. The revolution in information technology makes such complex, interconnected production processes more and more profitable. The world's affluent nations are willing — to a certain extent — to impose costly limits on industry to protect wildlife. Such "luxuries" are not feasible for debt-ridden developing countries. Development pressure on the world's few remaining wilderness areas intensifies — carried on mostly by marginalized peasants seeking whatever land they can find.

Henry George argued convincingly for free trade — true free trade, that is — in 1886, in a world that, though not without complexities of its own, must seem simple next to the mindbending interconnectedness of our own time. Are there not many more concerns, today, than George ever dreamt of? Can we responsibly support a "free trade" policy in today's world economy?

This supplement will examine three urgent questions in today's "free trade" debate. Does free trade

— benefit multinational corporations at the expense of working people and communities?
— hinder the economic progress of the world's less-developed nations?
— contribute to further degradation of the environment?

As we have done so far in the course, our primary method will be to use reason to make deductions from basic principles. The basic economic definitions from *Fundamental Economics* will be used consistently. We will not, however, ignore the facts — or the contributions of modern-day political economists.

Free Trade and Multinational Corporations

The word "corporation" has become a very loaded one in today's political discourse; often "corporate" is used as a synonym with "evil" — especially when it is combined with the word "multinational". In assessing the ill effects of multinational corporations on people and the environment, we must be sure to clearly define our terms and identify causal relationships. What is it about corporations that makes them bad? Is it that they are too big? That they operate across national boundaries? That they bribe corrupt governments into granting them privileges? Or are they outgrowths of an inherently exploitative market system?

Corporations are merely business entities, or "firms", so what is true for corporations is true for all

"Sundown on the Unions..."

and what's made in the USA," lamented Bob Dylan in the 1980s — "they don't make nothing here no more." Globalization has put increasing pressure on labor unions in the United States. In the last two decades there have been many fewer strikes and more "givebacks" as unions strive to keep their ground in the face of job cuts and layoffs.

Today's unions are far different from what they were in the "gilded age", however — when workers bravely organized and fought to win such basic concessions as a ten-hour workday, an end to child labor, or compensation for workers disabled on the job. Today, although "elections" are held, members have little say in union governance. Membership is compulsory in many industries, yet overall union membership is declining. And unions have been slow to reach out to fellow workers in other countries or in other industries.

While the decline of unions is partially attributable to increased competition from foreign workers, it is also due to a decline in real wages in the US, making unions' jobs that much harder.

In economic terms, a modern labor union provides "protection" for workers in a particular industry — similarly to the way that tariffs provide protection for the products of an industry. Competition is not allowed. Undoubtedly this is a fair response to workers forced to toil ceaselessly for bare subsistence wages. Yet it is not, in itself, a way to increase worker productivity. Workers say to managers, in effect, "We will not become more productive. We are productive enough; you must pay us more because our wages are too low. If you do not, we will not let anyone else work for you." If management's most profitable course of action is to invest in capital and training to increase their workers' productivity, they will do so. If they are able to exploit workers who will work for less, however, they will do that.

That is today's muddled economy: protected workers making protected products, both labor and capital paying huge taxes while real estate and finance reap windfalls, and the cumulative effect of all these piled-up inefficiencies showing up in permanent unemployment and recurring economic slumps.

Henry George wrote the following eerily prescient comments in 1883, in *Social Problems:*

> *When workmen in any trade form a trades-union, they gain, by subordinating the individual interests of each to the common interest of all, the power of making better terms with employers. But this power goes only a little way when it is checked by the pressure for employment of those outside its limits.... It is necessary, if workmen would accomplish anything real and permanent for themselves, not merely that each trade should seek the common interest of all trades, but that skilled workmen should address themselves to those general measures which will improve the condition of unskilled workmen. Those who are most to be considered, those for whose help the struggle must be made, if labor is to be enfranchised, and social justice won, are those least able to help or struggle for themselves, those who have no advantage of property or skill or intelligence — the men and women at the bottom of the social scale. In securing the equal rights of these we shall secure the equal rights of all.*

In today's global economy, the people George would point to are precisely those exploited foreign workers who are taking "our" manufacturing jobs.

businesses. They are in business to make profit, and they do so by minimizing the cost of the factors they use in production (both the primary factors, land, labor and capital and secondary factors such as taxes and regulations), and then selling goods and services for as high as price as they can get.

Four ways in which firms can increase their profits are:

— ***Using economies of scale:*** Businesses respond to competitive pressure by getting bigger when they can — particularly in an economy where the burdens of rent and taxation are onerous. In such an economy (like ours today) conditions are very difficult for small businesses. We saw in Lesson 3, for example, how indirect taxation favors large businesses. However, there are disadvantages to a corporation becoming too large. Layers of management become self-sustaining. It is often more difficult for large businesses to respond to a quickly changing marketplace.

— ***Increasing worker productivity:*** Historically, high-paid workers have always tended to be more productive. This is because wages are determined by the labor market, not the goods market (as we saw in Lesson 4). Where employers must pay high wages, they respond by investing in technology and training to get more production out of workers. In many cases today, however, highly-efficient

technology, initially developed in high-wage markets, is being transferred to developing countries where wages are very low. (It might be noted, however, that this is not universally successful. The workers must have a certain minimum level of education. Some manufacturing operations have actually been moved back into the US when "out-sourcing" became impracticable.)

— ***lowering their production costs:*** There is a great deal of extra cost associated with hiring labor in the US and other "first world" countries, particularly full-time labor. Employers must pay payroll taxes and health benefits, and must comply with safety and environmental regulations. Today, many businesses are taking advantage of the opportunity to relocate production to places where these costs are far lower.

— ***securing higher prices for their wares:*** Goods can be exported to places where people are willing to pay higher prices for them — this is a major advantage of international trade. But, well-funded corporate lobbies can also secure higher prices through privilege — by tariffs or subsidies, often granted in return for large contributions to ever-more-costly political campaigns. These privileges are how large corporations cushion the "dis-economies of scale" mentioned above.

It may be noted that industrial workers in the less-developed countries are often eager to take the jobs that are offered by multinationals, even though those jobs are seen as slavery-like conditions from the perspective of the wealthier nations. Indeed, the poverty of much of the world is so extreme that corporations see a nearly irresistible advantage in making use of the cheapest labor available.

Furthermore, many developing countries are saddled with huge foreign debt. A great deal of money was loaned to the governments of developing nations, under the assumption that their lack of development could be remedied by a huge infusion of capital. But the capital was not productively used, in most cases. It lined the pockets of corrupt government officials, or purchased weapons, or got spent on pork barrel projects that actually did nothing to increase wealth production. Now new loans have to be taken out to pay interest on the old ones! As a condition of this new lending to service old debts, "austerity programs" are inflicted on the taxpaying people of those countries — the second hit of a one-two punch against development. Under such conditions, these countries have no incentive to impose health, safety or environmental regulations on foreign businesses that invest in their countries. And, the ruling elites in those nations have a strong incentive to quash — often with brutal repression — any effort of workers in their countries to organize and strike for higher wages.

These, in brief, are the opportunities that are profitably exploited by today's multinational corporations.

The problems of poverty in the world's poor countries predate the arrival of multinational corporations, who merely used underlying conditions to their advantage. Therefore, although it is true that the amoral actions of businesses in response to those underlying conditions have done little or nothing to improve them, removing the multinationals would not solve the problems.

Many people see the suffering and want in which so many people live in these "days of miracle and wonder" (as Paul Simon put it) and blame the economists, as if slavish devotion to the law of comparative advantage and the logic of markets were what had created the whole mess. The law of comparative advantage works as well as it ever did (see Lesson 4). Privileged interests can undermine its benefits, however. Consider the example of sugar. The United States can, with its world-leading agricultural technology, produce sugar more cheaply than various poor Caribbean nations can. However, there are a great many products for which the US has a far greater comparative advantage. Economic theory would lead us to expect that a mutually profitable exchange would be made between the US and Caribbean sugar producers. But, alas, special interests exert an influence on US trade policy: tariffs on imported sugar and price supports for domestic sugar producers wipe out the gains of comparative advantage. US consumers pay a bit more for sugar, but the burden is widely spread, and is tolerable to our relatively affluent society. The effects on the Caribbean sugar producers, however, are devastating. This is clearly a case of market failure, brought about by privileges granted to a special interest: an example not of free trade, but of protection.

Roadblocks to Development*

The typical land tenure in Less Developed Countries (LDCs) is the ownership of much of the land as large estates by a few land owning families, who are closely connected with the military and government. The farmers typically rent or own small plots of land, and often must supplement their subsistence crops with income earned in commercial plantations, where coffee, bananas, and other crops are grown for export. Women are usually dominated by men, who control much of the property. Wars, civil strife and oppression have made sheer survival the main priority of many of the people in these countries, as malfunctioning economies feed political instability, which then inhibits development.

In fact, the governments of most LDCs have placed barriers against investment. High taxes, legal restrictions, complicated permit requirements, and bureaucratic procedures have stifled domestic and foreign enterprise. Often, corrupt government officials require a bribe to obtain a permit. Some governments impose costly and time-consuming visa requirements for foreign visitors, or make travel impossible.

Unemployment in LDCs, as in other countries, is caused by such barriers between labor and resources. In many cases, the ruling elites of such countries are uninterested in economic development, because they stand to collect the overwhelming majority of what little wealth is produced. This is one reason why there is so much military investment, and so much repression, in these countries. The ruling elites' main objective is not to develop their economy but to maintain their privileged status quo. Furthermore, in Eastern Europe and in some LDCs, organized crime plagues enterprise, making businesses pay protection money. The government, including members of the police and border guards, are often allied with the racketeers and share in the loot. A truly free economy cannot be established unless such crime and corruption is rooted out.

As explained in Lesson 5, poverty is caused by low wages at the margin of production — low productivity on the worst land being used. The remedy is to both increase productivity at this margin and to move the margin toward more productive land. The community collection of land rent will induce the most productive use of land, so that the margin will be at the best available unused land. The removal of taxation on labor and enterprise will then enable workers to keep the full product of their labor and will encourage investment in more productive enterprise. The removal of restrictions will also enable farmers and small business persons to obtain credit and create enterprises.

Those countries which have developed have had relatively free-market oriented policies grounded initially in land reform. Japan in the 19th century and Taiwan after 1950 removed the old aristocracy and turned land over to the farmers, combined with a substantial tax on the land rent. As Fred Harrison (1983, p. 154) states, "within two decades Japan had completed the transition to modern economic growth and was ready to take on all comers!" Land rent was used to develop infrastructure, which further increased productivity and rent. Funds from agriculture were used to develop export-oriented industry.

The engine of development is the desire of people to improve their lives. Where labor has equal access to natural resources and is able to keep its product, thus having the incentive to invest much of it for future gains, development will happen. With freedom also will come a sea of foreign investment seeking the most productive fields.

And of course, those peoples who do not wish to change their way of life, particularly the primal and tribal peoples in the rain forests and the nomads of the deserts and dwellers of the Arctic — they have the right to continue their cultures unmolested by the onslaught of commercial nature-wreaking development. Human beings did not start out poor, hungry, needing development. Primal man had natural wealth from the bounty of nature. Only after humanity turned to agriculture and conquerors took the land did the brave hunter become a lowly peasant working for a wage pittance from dawn to dusk while the lord dined on wine and game hens under chandeliers. Only after the descent to serfdom does development beckon with the promise of increasing productivity. And then, unless workers are liberated from bureaucracy and taxation, and unless the yields of land are shared by the community, the road of development will be a long, hot, stony journey.

True Free Trade and the Environment*

If, however, international trade permits businesses to shirk the social costs of pollution by setting up shop in unregulated places, is this not a very serious ill effect of free trade?

A major problem with international trade is the unequal environmental policy among countries. For example, as US companies relocate south of the border in search of cheap labor, some companies have dumped toxic waste into the Rio Grande, causing serious health and water-supply problems in the area. But such pollution is not part of free trade. A truly free market consists of voluntary exchanges, and dumping pollutants is not voluntary to the victims. Polluting is an act of force unless it is agreed to. In a free market, polluters must be charged for the social costs. This charge is a type of rent for the use of land (including water and air as economic land) as a dump.

The problem in free trade is then to equalize such pollution charges, otherwise some countries will have an unjust advantage. Those with lower pollution charges will have lower production costs, but these are really environmental costs being imposed on others. Free trade thus requires an international agreement on common charges for environmental destruction. A comprehensive agreement would include fees, fines, and other charges on any use and abuse of natural resources, including pollution, the destruction of wildlife, deforestation, and soil erosion.

This notion of the air, soil and water as "dumping ground" may seem far-fetched at first glance. But it is entirely consistent with the essential character of land as a factor of production.

How Can the Costs of Pollution Be Assessed?*

The oceans and the atmosphere are a type of common pool (although some local pollution can be separated out). Since those resources are part of our natural resources, or economic land, those who dump pollutants into the sea or the air are obtaining a benefit from the use of this land, and thus gain a rent. Humanity as the owner of the oceans and atmosphere is therefore entitled to collect this rent, which ideally would compensate all future generations for the damages.

However, it is difficult to estimate the amount of damage committed by the pollution of a large area such as the upper atmosphere or the oceans, especially since the damage lasts into the indefinite future.

Pollution has indeed affected the economy; the costs it imposes are easy to see: costs of health care, lost productivity, and degraded infrastructure, habitat and cropland. But these costs have commonly been seen as "externalities" — things outside the market process. The central problem is that government policy has not marketized most of our air and water, so users and abusers of the environment have not paid for the social cost. By treating the atmosphere and oceans as free goods, there has been no incentive to protect it. Municipalities also are able to use rivers and oceans as dumps for sewage.

The ideal solution is to have the polluter pay for the use of the environmental service. The "polluter pays principle" was adopted by the OECD, the Organization for Economic Cooperation and Development, in 1974. This intergovernmental organization recognized that the marketization of the environment requires an international agreement, so that firms which use costly anti-pollution devices do not suffer a competitive disadvantage. A pollution charge would also encourage inventions and investments in anti-pollution technology and in less-polluting techniques such as solar energy.

Some proposed environmental taxes do not directly charge for pollution, but for products whose usage is currently polluting. For example, "carbon tax" has been proposed, based on the carbon content of the fuel used: a higher charge for coal than for oil and a lower one still for natural gas. But this is more directly a tax on consumption. It is economically more efficient and morally less coercive to place a charge directly on the pollutant, such as carbon monoxide, in proportion to its damage. Such a charge would not be a tax on the consumption of carbon, but rather a fee for the use of air as a dumping place for the pollution created.

There are at least three ways to set such a pollution charge. The first method is to measure the eco-

nomic impact of environmental damage, and set the charge equal to that cost. For example, air or noise pollution can reduce real-estate values. When direct measurements are not available, one can use the contingent valuation approach. People are asked either what they would pay for an environmental benefit or what they are willing to receive as compensation for some reduction in environmental quality.

The second method is to assume that the total damage from pollution is infinite (considering the effects on future generations for all time to come), so any amount charged will but compensate a little for the damage. The charge is then determined by budgetary desires. Assuming the charge were set high enough to make it worth the polluter's while to get rid of it, the effect of the charge would be to reduce the pollution, and so the fee per ton could be increased for the next period, which would then reduce pollution even more.

The third way to charge would be to treat the ocean or atmosphere as private property, and maximize the revenue for dumping into it. For example, suppose some corporation were assigned ownership of the North Atlantic ocean, with rights to collect fees for pollution dumping. The firm would set the rates per pollutant, given some list of pollutants and relative charges by a governing authority. It would try to maximize its profits and would set a rate that would most likely be so high it would substantially reduce the pollution. This company in turn would pay its rent, which would be most of its revenues, to a governing authority, such as the United Nations, providing it an independent source of revenues. (Surplus revenues could be distributed to the member nations.) To keep the process efficient and honest, provision should be made for members to be able to secede from the organization and form alternative international organizations which would also share this rent.

A combination of these methods would include the natural environment in a global market economy, so that the social costs of enterprise would be borne by those obtaining the benefits.

Trade and National Boundaries

Once the land, the resources and opportunities of the natural world, are rightfully understood as common property, to which all human beings, now and in the future, have an equal share, the concept of a "national boundary" takes on a different character. We see that the arrangements that societies have made in this regard are provisional, politically motivated, and finally without either moral basis or economic rationale.

We saw the basis of this understanding in *Protection or Free Trade.* George notes that if it benefits individuals, families, towns and states to trade with one another, why then would it benefit nations to restrict trade? He also observes the utter lack of compunction with which people evade customs duties — because they feel that there is no wrong in carrying duly-purchased goods across imaginary boundaries.

The Apollo astronauts' photos of the Earth from space show no national boundaries. They exist for political reasons; they delimit spheres of influence and control. The earth is the same on either side of a national boundary; the weather makes no announcement when a border is crossed.

This seemingly poetic insight is one that the business community has long recognized. Business has so effectively become a global phenomenon that national governments in many places are scrambling to find ways to regulate the behavior of multinational corporations. International "free trade" agreements, influenced by the lobbying of international business, go as far as to impose sanctions on nations who seek to improve their environmental or safety regulations. As was explained above, such maneuvers are not part free trade; they are actually grants of privilege.

Ross Perot heard a "giant sucking sound" — but he did not correctly identify its source. It wasn't international trade, but the collection of unearned wealth by the holders of land and other monopolies. Truly free trade begins with the recognition of humanity's common right to the natural opportunities — and the individual's right to keep the wealth that he or she produces. When nations implement this basic key to economic justice and prosperity, the pressures on their national boundaries will no longer be so intense. The needed reforms are far-reaching, and their implementation will not be easy — but comprehensive solutions do exist. The first step is to make sure that people understand them.

* *These sections are adapted from* The Science of Economics *by Dr. Fred Foldvary.*
http://www.geocities.com/Athens/Oracle/9252/economics.html

Lesson 6 — True Free Trade

Reading Assignment: *Protection or Free Trade,* Chaps. XXII - XXX

Free Trade and Wages

1. What is the fundamental problem which free trade alone cannot solve, and which accounts for the general acceptance of protection? (233-235; 4 pts.)

It is that in spite of the enormous increase of productive power, it is yet so hard for the mere laborer to get a living. In fact, free trade is simply one of the many factors that makes labor more productive.

2. Give two reasons why inequality in the distribution of wealth tends to lessen the production of wealth. (241; 5 pts.)

1) By lessening incentive and the application of intelligence among workers.
2) By increasing the number of non-workers and parasites.

3. From what fact does protection, in spite of its fallacies, draw its greatest strength? (243-244; 5 pts.)

From the fact that, as a certain stage of social development is reached, unemployment increases and the opportunity to work is regarded as a privilege.

4. Is work a desirable thing in itself? Explain your answer. (244; 5 pts.)

When economic opportunities are scarce, people come to regard work as a desirable thing in itself, when in reality it is toil that people would otherwise seek to avoid.

5. What advantage has the seller of commodities over the seller of labor? (248; 4 pts.)

The person who does not sell a commodity today still has it to sell tomorrow. The worker who does not sell labor today loses a day's wages.

6. Where the worker cannot be self-employed, what is his or her attitude toward the employer? (247-249; 4 pts.)

The employer is regarded as a benefactor.

7. What has been the effect of labor-saving inventions on the condition of labor? (253-257; 4 pts.)

There has been no general improvement in the condition of labor due to laborsaving inventions. Whatever improvement has come about has been due to other factors, such as labor unions, legislation, etc.

True Free Trade

8. What is the "robber that takes all that is left"? (267; 4 pts.)

Private property in land.

9. Name some other ways in which wealth is diverted from producers to non-producers. (266; 4 pts.)

Monopolies in production and exchange, tariffs, dishonest money and banking system, wars and preparation for wars, etc.

10. What would be the net effect of abolishing all other monopolies except that of the private ownership of land? (268-269; 5 pts.)

The production of wealth would be stimulated, thereby increasing the demand for land. Rents would rise and ultimately absorb all the benefits.

11. As inventions increase the power to produce wealth, what happens to

a) the value of commodities? (4 pts.)

Tends to fall as cost of production falls.

b) the value of land? (273-274; 4 pts.)

Tends to rise as increased production enables landowner to collect more rent.

12. To make free trade beneficial to labor, what basic reform must be adopted? (280; 5 pts.)

We must treat the elements of nature as common property.

13. Does common property in land conflict with the basic human right of a worker to own the product of one's own labor? (280; 5 pts.)

No. On the contrary, where everyone has the right to his or her produce, people cannot have any right of property in what they did not produce.

14. What are the two main components of the social reform that would bring the benefits of true free trade to all? (280-284; 4 pts.)

Leave landowners undisturbed in their present possession of land, on condition that they pay rent to the community for the exclusive privilege they enjoy — and abolish all taxes on the production of wealth.

15. What are the major benefits to be derived from the public collection of rent? (283-284; 5 pts.)

Labor and capital would keep what they now pay in taxes. A large and growing fund would be available for public purposes without burdening labor or capital. The land monopoly would be ended, thus throwing open land for use by labor and capital.

16. What is the difference between a tax on land area and a tax on land values? (287-288; 5 pts.)

Taxes on land area apply equally to all land regardless of value. Therefore, because they would be paid in proportion to the amount of land used, they fall on production (and can be passed on from the owner to the user). Taxes on land values fall on land only proportionately to its value, hence do not fall on production; they are the value of the unique advantages held by the owner of the site.

17. What is true free trade? (286-290; 6 pts.)

Free trade means free production and requires that labor and capital shall be freed from taxation, and shall have free access to land.

Georgism and Socialism

18. Why is George's reform a primary one? (300; 4 pts.)

Because it removes the primary cause of poverty, thus providing a basis for other needed reforms.

19. Compare George's attitude toward competition with the socialist's. (307-308; 5 pts.)

George maintains that competition is a good thing in itself, and the best possible natural regulator of industry, given free conditions. Because of restricted opportunities, competition seems like an evil. Socialists maintain that competition leads inexorably to injustice and class struggle — and will ultimately be abolished in favor of a planned economic system.

20. How would George's proposal affect government? (305-306; 4 pts.)

It would tend to purify government in two ways: by improving social conditions and by simplifying the administration of government.

21. What are some practical ways to secure public recognition and adoption of George's proposal? (317-326; 5 pts.)

People's moral sense must be aroused. Justice rather than self-interest should be the appeal. Opposition should not be feared, because interest cannot be aroused without it. Practical proposals should be put forth and public discussion of them promoted.

Supplement — Lesson 6

1. Socialism, Capitalism, and *Geoism*

"Socialism" is a much used and misused term. The word was coined around 1830 to indicate any doctrine that tries to rationally organize economic and social life. The *American Heritage Dictionary* offers two definitions: 1) "A social system in which the producers posess both political power and the means of producing and distributing goods." and 2) "In Marxist-Leninist theory, the building, under the dictatorship of the proletariat, of the material base for communism." In its most frequently used sense, socialism is a system of social or governmental ownership and control of the means of production. Marxist theory teaches the coming of socialism through class struggle and revolution, in preparation for the final historical stage of "communism", in which all private property and other vestiges of capitalist production are abolished.

Socialism is usually discussed in opposition to "Capitalism". Normally that is taken to mean a system in which the factors are privately owned and economic decisions are made by a market that is free of government intervention.

In the hysterical political climate that characterized the cold war, the meanings of these terms tended to become squashed under the excessive ideological weight that they carried. Each "ism" became identified with the diabolical plot of an enemy. Meanwhile, their use to describe economic policies was by no means clear, as "free-market" economies developed more and more "socialistic" government programs — and "socialist" economies granted more "market freedom" to producers. Eventually the terms came to have about as much descriptive clarity as the names "Red Sox" and "White Sox".

But the term "socialism" does mean something, and it is often identified with the quest for economic justice. The basic assumption underlying it is that the market place, under conditions of pure laissez-faire competition, is incapable of securing to society an equitable distribution of wealth. Socialists assert that if the market is left alone to decide who is to get how much of the world's goods, the result is a division of society into classes and the emergence of a struggle between the exploiting class and the enslaved working class. Competition becomes "cutthroat competition", fostering trusts, cartels and monopolies. Instead of making earnings proportional to service rendered, the market place gives the highest rewards to the most unscrupulous exploiters.

However, many are proud to rally behind the banner of "capitalism". They contend that free competition makes the fullest possible use of the gifts of nature and human ingenuity. When the admirable efficiency of the market is hindered by do-gooders trying to secure their idea of fairness, the result is unemployment, stagnation and corruption.

Capitalists and socialists may appear to disagree about everything — but on one crucial point of political economy their views are uncannily similar. Both tend to lump land and capital under the single heading of "capital," and many even include money as capital. This confusion prevents socialists from seeing the possibility of a beneficial free market without the element of monopoly. And it prevents capitalists from seeing the fundamental role of the public sector in a just and prosperous market economy.

It may seem odd that both "capitalists" and "socialists" speak of the justice of their system and the vile ***in***-justice of their opponents'. (Of course, the emotion behind such discussions is often heightened by a kind of home-team fervor.) Is there any universal standard of justice upon which economic policy can be based?

The answer lies in clarifying the question of the rightful basis of public vs. private ownership. For the thorough-going free-market capitalist, "public ownership" of anything is anathema: the community's interests are best served by the unhindered interactions of self-interested producers and traders. But the poverty, suffering and environmental destruction that come under such a "private property" regime cannot be denied. Because of this, the great bulk of social-policy debate revolves around how much of the ***efficiency*** of free enterprise must be traded for public interference, imposed in the name of ***equity***. The

question of the rightful balance between public and private control becomes one of expediency and political fashion, lacking any guiding principle. Indeed, modern "neoclassical economics" denies that any such principle exists.

For Henry George, however, the principle was clear. The value of natural opportunities belongs entirely to the community, and the production of wealth by labor, using capital, should be entirely unhindered by the penalty of taxation. For George, the important question was not the ***amount*** of wealth that should be taken by the community, but the ***kind*** of wealth that should rightfully go to the community, because it is a value that the community has created.

In recent years, this understanding of the distinctive character of ***natural opportunity*** (land) as a factor of production has led to the coining of a new term: Geoism, indicating a philosophy based on the rightful understanding of the place of the Earth (Geo-) in economic life.

2. The Free Trade Ideal

Richard Cobden (1804-1865) was a pioneer of free trade policy. With his colleagues, he brought about the abolition of the corn laws in England (restricting the importation of grain) in the 19th century, ushering in an era of relatively free trade and prosperity. Refuting the charge that he was concerned only with material interests, Cobden made the following stirring statement on free trade:

> *I have never taken a limited view of the object or scope of this great principle. I have never advocated this question very much as a trader.... I believe that the physical gain will be the smallest gain to humanity from the success of this principle. I look farther; I see in the Free Trade principle that which shall act on the moral world as the principle of gravitation in the universe — drawing men together, thrusting aside the antagonism of race, and creed, and language, and uniting us in the bonds of eternal peace.*
>
> *I have looked even farther. I have speculated, and probably dreamt, in the dim future — ay, a thousand years hence — I have speculated on what the effect of the triumph of this principle may be. I believe that the effect will be to change the face of the world, so as to introduce a system of government entirely distinct from that which now prevails. I believe that the desire and the motive for large and mighty empires; for gigantic armies and great navies — for those materials which are used for the destruction of life and the desolation of the rewards of labor — will die away; I believe that such things will cease to be necessary, or to be used, when man becomes one family, and freely exchanges the fruits of his labor with his brother man..."*

Henry George shared this vision and felt that true free trade would eventually lead to a world federation. Cobden thought that universal free trade would lead to an extension of the municipal type of government, and this is consistent with the ideal of federalism.

Can such lofty goals be attained through the simple removal of tariffs? No. True free trade must be understood as something far more than that. Tariffs, after all, are only one of the many tax burdens that are placed on labor; true free trade would entail removing them all. But, as Henry George asked, what would be the effect of the complete removal of all tax burdens, if private property in land were maintained? It would be, of course, to vastly increase rents. The greatest requirement of true free trade would be to remove the impediment of land monopoly by means of the public collection of land rent.

Many point out that free trade in goods cannot truly be free trade while immigration is severely restricted. While nations face persistent unemployment, workers deeply fear competition from immigrants. Yet Henry George shows that if a nation ended land speculation, and removed tax burdens from labor and capital, it could create a positive demand for labor! Under such conditions, nations would freely admit immigrants, and even encourage them — as the United States did, in the 19th century.

George's *Protection or Free Trade* has often been cited as being the best argument expounded against protectionism. But it is more than that. George saw that free trade had to be accompanied by land reform. Cobden too saw the connection. Late in life he said to a group of young reformers: "You who liberate the land shall do more for the country that we who liberated its trade." English laborers also sensed the connection and advocated free trade but also reform of landlordism. Unfortunately, since free trade by itself did not bring about expected improvements in the condition of labor, England abandoned the policy.

Lesson 7 — The Individual and Society

Reading Assignment: *Social Problems,* Chaps. I - VII

1. What faculty in human beings enables them to overcome difficulties imposed by nature in making a living? (2; 5 pts.)

Intelligence. This enables people to adapt, to invent, to master nature.

2. How does this faculty express itself in our highly developed civilization? (3; 5 pts.)

By cooperation (through trade and division of labor). This makes possible the manifold ways in which modern civilization administers to human desires.

3. Has human nature changed within historical times? (2-3; 5 pts.)

According to all the evidence, human nature has not changed within historical times. We are still essentially the same beings we recognize at the beginning of recorded history. Modern anthropology confirms the basic unity of the human race.

4. In which direction must we look for the betterment of humankind: toward improvement of the species, or toward improvement of society? Explain. (2-3; 5 pts.)

Toward the improvement of society. Humankind today possesses great potentials which can be utilized without changing human nature. But these potentials require greater social development for their fuller expression.

5. In what way does the division of labor in a civilized society affect individuals' economic independence? (4; 5 pts.)

It makes individuals more dependent upon others. There is an enormous gain in productive power from division of labor, but the social organization becomes more interdependent.

6. Contrast the effect of a disaster upon a primitive society with one upon a civilized society. (3-4; 5 pts.)

A primitive society can recover more rapidly than a civilized society. Also, a disaster a few miles away scarcely affects a primitive village, whereas a local disaster in modern civilization can have world-wide repercussions. (Example: a crop failure of coffee in South America affects supply and price in the U.S.)

7. To what may be attributed the growing unrest and bitterness of the masses of the world? (7; 5 pts.)

Old social and political systems are not adapted to meet the strain of changing economic, industrial and political forces. For example: multinational corporations have been moving to meet the opportunities offered by an increasingly interdependent "global economy" for decades, while working people remain distracted with parochialism, racism and xenophobia.

8. Has social science kept pace with natural science? (8; 4 pts.)

No. Science has revolutionized industry and is still advancing; but war, greed, cunning and corruption still dominate our social, economic and political systems, as they did thousands of years ago.

9. Provide a contemporary example of:

a) a great advance in science or technology. (5 pts.)

In science, exploration of outer space. In technology, advances in electronics and computerization.

9. b) an unsolved problem in the social, economic or political realm. (5 pts.)

In virtually every social field there are serious unsolved problems: crime is widespread; internationally, there are frequent terrorist actions; human rights have suffered setbacks; small wars continually break out, fantastically destructive weapons continue to threaten us; dictatorships exist in much of the world.

10. What is the duty of the citizen? (9; 5 pts.)

To exercise intelligence in the solving of social problems. One must go beyond self-interest and seek justice.

11. Is the idea of liberty acquired or instinctive? (12; 4 pts.)

Instinctive. Primitive perceptions favor the equal rights of all.

12. How does the growth of government tend to affect liberty? (12; 5 pts.)

The tendency of social growth is to make government the business of a special class. As the power of the governing class grows, it tends to restrict the liberty of the masses.

13. How do great aggregations of wealth corrupt government? (13-14; 4 pts.)

Great wealth fears change and supports the status quo. It buys off opposition and purchases acquiescence through bribes and lobbying.

14. In a corrupt society what happens to government despite democratic forms? (14-19; 5 pts.)

Democratic forms lose their meaning and government becomes the tool of special interests. This in turn makes society even more corrupt.

15. How can a sound basis for democratic institutions be secured? (15-16; 4 pts.)

By securing to all the freedom to earn a comfortable living. With economic freedom as the base, political freedom would have greater meaning.

The Past and the Present

16. What was the economic importance of the discovery of America? (22; 5 pts.)

It furnished an outlet for the restless and oppressed people of Europe. The "free land" of the New World offered economic opportunities that were denied in Europe. The vast areas of sparsely-settled land in the New World afforded economic opportunities that kept wages and productivity high, fostering rapid economic growth.

17. How are social beliefs perpetuated? (31-33; 5 pts.)

By the tendency to accept what we find and to believe what we are told. Thus, each generation passes to the next its accumulated knowledge as well as its errors.

18. What two opposing tendencies have resulted from social progress? (34; 5 pts.)

Social progress tends to awaken a sense of equality, while at the same time it fosters an increase of inequalities.

19. Contrast modern working conditions with those existing before the advent of mass production methods. (34-37; 4 pts.)

Under the old system of handicrafts there was more independence, variety, human association and pride of accomplishment. Under modern mass production methods, working conditions are more monotonous and dehumanized, and the individual becomes a cog in a huge machine.

20. What has been the basis of most large fortunes? (51-56; also see Supplement; 5 pts.)

Special privileges and monopolies, especially the monopoly of land (including natural resources).

Supplement, Lesson 7

1. Electoral Reform

Henry George believed that no revolution was necessary to bring about the First Great Reform he advocated; that the essential structures were already in place in modern society and existing laws need only be modified to secure private and public property on a moral basis. Perhaps in earnest of this, George accepted twice the challenge to run for Mayor of New York City. (In the first race, in 1886, George said he would run only if the United Labor Parties gathered 30,000 signatures requesting it — which they did.) During George's life and the two decades following, the "single tax" movement was organized politically in the US and fielded many candidates. Notable single taxers in public office included Henry George, Jr., elected to the US Congress, Tom L. Johnson, Mayor of Cleveland, and Louis F. Post, Assistant Secretary of Labor in the administration of Woodrow Wilson.

George was not, however, naïve about the corruption of the political system. In the reading for this lesson, George flatly states that "It behooves us to look facts in the face. The experiment of popular government in the United States in clearly a failure.... our government by the people has become, and is in larger degree becoming, government by the strong and unscrupulous."

Georgists realized, therefore, that to achieve their great goals, it would be necessary not only to educate the people, but to ensure that the political system would faithfully carry out the people's wishes. Many got involved in various kinds of electoral reform. One notable example was a successful campaign in Oregon, spearheaded by single taxers, to initiate popular legislation by means of referendum. Many states have since adopted this reform. (Results have been mixed, however. The most notorious referendum result was the enactment of Proposition 13 in California, which drastically reduced the state's tax revenue and instituted a chaotic and inequitable property tax system.)

There is a growing consensus that the US political system needs substantial reform. Voter turnout has been consistently dropping and polls show increasing anger and cynicism toward elected officials, particularly in the Congress. The two major parties offer less and less choice; they are widely perceived as differing mainly in their rhetorical stances. "Winner-take-all" campaigns between major-party candidates often use the ugly but effective technique of "mudslinging" rather than offering positive proposals. Many calls have been made for a reform of campaign finance. Campaign contributions by individuals have been limited by law since the 80s. However, a huge loophole was left open — individuals and corporations can legally give unlimited amounts to political parties (who then turn around and spend it on enormously expensive TV-intensive modern campaigns). Recent initiatives to disallow this kind of "soft money", while overwhelmingly supported by the public, have failed to make it through the Legislature.

Another poorly-understood process in US government that encourages the preservation of the status quo is the use of redistricting to give a nearly irresistable demographic advantage to incumbents in Congressional and Senate races. Because this process is controlled by the very members of Congress who stand to benefit from it, there is a huge incentive to "gerrymander" districts to their own advantage. (The tactic of "gerrymandering" — re-drawing districts to weaken opposition blocs — has long been controversial. After the civil war it was used to weaken support for African-American legislators. More recently an "affirmative-action" form of gerrymandering was used to redress racial and ethnic imbalances.)

There is growing advocacy of a shift to a "proportional representation" system. Under such a system, voters rank the candidates, and legislators are elected according to a tally of their preference levels with voters. Under such a system, alternative political parties have a much better chance of influencing the legislative process. Voters no longer feel the need to "throw away" their votes on the lesser of two evils. Many nations use such a system today, including Germany, Japan, Australia and Brazil.

Some advocate using the new technological possibilities of instant communication to institute "direct democracy" — in other words, to bypass the representative system and, essentially, decide every legislative question by electronic referendum. Other point out, though, that well-financed modern advertisiers

can sway popular opinion virtually instantly. In an age of instant communication, when most of the content of that communication is in the control of huge media conglomerates, a fair and uncorrupt system of "direct electronic democracy" is hard to imagine.

Henry George believed that "democratic government in more than name can exist only where wealth is distributed with something like equality — where the great mass of citizens are personally free and independent, neither fettered by their poverty nor made subject by their wealth." And yet he proposed to use that very democratic system to bring about the reform that would create such a state of society. This could, perhaps, be called an oxymoron — or, a dual challenge to George's followers.

2. The Great American Fortunes

"The element of monopoly, of appropriation and spoliation," writes Henry George in Chapter VI of *Social Problems*, "will, when we come to analyze them, be found largely to account for all great fortunes." He gives the examples of the Astors, Vanderbilts and Goulds.

Other examples can also be cited. John D. Rockefeller, through shrewd trading, acquired control of many oil wells. Defying anti-trust laws and by political corruption, his Standard Oil Co. soon spread throughout the oil resources of the world. The banking house of Morgan had its inception during the Civil War, making huge profits in both North and South, and later reorganizing railroads to prevent competition. The Mellon family started with a small Pittsburgh bank, launched the Aluminum Co. of America, in effect a trust, then branched into oil refining and utilities.

While not all great fortunes originated with land monopoly — many having started through trade and industry — they were perpetuated by taking advantage of monopoly, investing in land, etc. Many fortunes were dissipated by the failure to do this. Examples of both may be found in the quick fortunes made by entertainment and sports stars.

With taxes on incomes and capital gains, wealthy persons are not eager to talk of their fortunes. But a former generation did, and following are some quotes:

"Ninety percent of all millionaires become so through owning real estate. More money has been made in real estate than in all industrial investments combined. The wise young man or wage earner of today invests his money in real estate." — Andrew Carnegie

"I advise women to invest in real estate. Real estate is an imperishable asset, ever increasing in value. It is the most solid security that human ingenuity has devised. It is the collateral to be preferred above all others, and the safest means of investing money." — Hetty Green

"Buying real estate is not only the best way, the quickest way, but the only way to become wealthy." — Marshall Field

"No investment on earth is so safe, so sure, so certain to enrich its owners as undeveloped realty. I always advise my friends to place their savings in realty near some growing city. There is no such savings bank anywhere." — Grover Cleveland

Among 20th century fortunes were those of Henry Ford, J. Paul Getty and H. L. Hunt. Ford's fortune rose rapidly as his mass-production methods succeeded; this was augmented by investments in natural resources. Getty's fortune originated from an investment in 1000 acres of Oklahoma oil land by his father; it is now a world-wide empire, with branches in real estate and aircraft manufacturing. The Hunt fortune was similarly based on oil. Succeeding generations of all three are perpetuating these empires. Most recently, Bill Gates has amassed a huge fortune by owning the operating system that powered the majority of the world's personal computers.

According to surveys undertaken by Forbes magazine, the richest Americans of modern times — those with a billion dollars or more — acquired their wealth in three major ways: by inheritance, from real estate and from oil. One example: Donald Trump's father built up a New York real estate operation which Donald has expanded nationally.

Many of the fortunes have been put to philanthropic uses. Foundations have been formed, research supported, universities and museums endowed. Medicine, education, art and science have benefitted (and tax exemption has been gained), but none of these foundations is exploring the causes and cures of our economic and social ills.

Lesson 8 — Rights and Wrongs

Reading Assignment: *Social Problems,* Chaps. VIII - XII

Rights and Wrongs

1. What teachings have contributed to the idea that poverty is inevitable? (72-75; 5 pts.)

Economists have taught that poverty is the result of unalterable economic laws. Religions have taught that poverty is the natural lot of the masses. The popular belief is that hard work is necessary in order to make a living. Those on public welfare are castigated as being lazy "cheats."

2. How does a war give evidence of great unused productive power? (75-76; 5 pts.)

In spite of the loss of labor power tied up in military service, there is still enough productive power to supply the needs of destructive warfare as well as the needs of civilian consumption. (A notable example is the tremendous productivity of female workers in the US during World War II.)

3. Is civilian production being maintained while there are huge military expenditures in the U.S.? What is likely to be the result, under present conditions, if these expenditures were discontinued? (5 pts.)

Civilian production continues virtually uninterrupted by military spending. If such spending were discontinued, under present conditions, there would likely be a worsening of economic conditions. Often, military contracts are given to communities that are depressed.

4. What problem underlies our social and political maladjustments? (81; 5 pts.)

The problem of the distribution of wealth.

5. Why can we not accomplish a permanent equalization in the distribution of wealth by forcibly redistributing it? (82-83; 5 pts.)

Because we would not be eliminating the underlying causes of the unjust inequalities. The tendencies to unequal distribution of wealth would soon reassert themselves.

6. What is the just, or natural, distribution of wealth? (83; 5 pts.)

It is that which gives wealth to the producer. Nature yields her riches only to labor. The natural distribution of wealth is: Rent to land (the community); wages to labor; interest to capital.

7. What other ways are there of acquiring wealth besides working for it? (84; 4 pts.)

Begging and stealing.

8. In the Georgist philosophy, should there be any limit to earned acquisitions? (86-87; 4 pts.)

No. There should be no limit to how much a person may earn, as long as it does not involve the robbing of others. (It should be noted that robbery, in moral terms, may or may not be illegal in a given society.)

9. What is wrong with charity? (87; 4 pts.)

Nothing is wrong with the charitable impulse. The wrong is that charity is needed on such a large scale in civilized society and that it is proffered without seeking justice.

10. What is meant by natural rights? (92-94; 5 pts.)

Those rights which inhere in human nature and which are set forth in the American Declaration of Independence and the French Declaration of the Rights of Man.

11. What economic rights are implicit in "the natural and unalienable right to life, liberty and the pursuit of happiness"? (96-99; 5 pts.)

The right of every person to labor and to keep the full fruits of one's labor; and the right to the use of land.

12. Why do people emigrate from one country to another, from one city or state to another? (4 pts.)

To find better opportunities for themselves and their children.

13. Compare the conditions of immigration to the U.S. in George's day with those of today. (105-116; also see Supplement; 4 pts.)

In George's day, immigration to the U.S. was unrestricted. Some immigration was subsidized. There were no immigration requirements except health. Today, immigration is restricted. To obtain a visa, an immigrant must show proof of livelihood. (Nevertheless, many "illegal immigrants" are routinely not compelled to leave the country. Because they lack the rights of domestic workers and are willing to work for low wages, they are economically quite useful.)

Over-production

14. a) What is the difference between "absolute" over-production and "relative" overproduction? (117-118; 5 pts.)

Absolute over-production would be excess production of all kinds of wealth beyond the wants of everybody. Relative over-production is the disproportionate production of one commodity as compared with other commodities.

b) Why is over-production in the absolute sense impossible? (117; 4 pts.)

Because human desires are unlimited.

15. In what two ways can relative over-production be caused? (118-120; 5 pts.)

1) An increase in the production of a commodity outrunning the ability to purchase that commodity.
2) A decrease in the production of other things lessening the ability to purchase that commodity.

16. What is the effect of a disproportionate increase in production of any one commodity on production generally? (119; 4 pts.)

The price of that commodity falls, thus leaving more purchasing power for other commodities. Therefore production in general will rise.

17. What is the effect of monopolistic curtailment of production in any one industry? (119; 4 pts.)

With reduced production of a commodity, its price will rise. This reduces its power to purchase other commodities, and so production in general will fall.

18. What is the effect of tariffs, taxes and restrictions upon production? (122-123; 4 pts.)

They penalize producers, thus discouraging production.

19. What is the greatest check to production? (124-126; 4 pts.)

The monopoly of land.

20. What is the effect of land speculation upon production? (127-128; 4 pts.)

By holding land out of use, it prevents production from taking place. This leads to recurring periods of economic stagnation.

21. Compare plausibility of Henry George's theory of the business cycle with other theories. (See Supplement; 6 pts.)

George's theory explains why and under what conditions production will stop, and under what conditions it will start up again. Most other theories fail to offer a comprehensive explanation of this phenomenon that consistently accords with the facts.

Supplement — Lesson 8

1. Population and Immigration

In Henry George's day immigration into the U.S. was relatively unrestricted — and was often encouraged. The Irish immigration was tapering off, the German immigration was at its height, and Italian and Jewish immigration was beginning, soon to reach its height. There was also a large Chinese immigration.

The tide of immigration continued without interruption until World War I. (One conspicuous exception was the Chinese Exclusion Act of 1882.) After World War I, immigration was drastically curtailed with each nation given a quota of immigrants. This has been changed to an over-all quota without respect of nationality — but the immigrant must show proof of support. This has kept immigration down, for the ones who want most to immigrate into the US are those who are poor and want to improve their lot in the "land of opportunity."

Poor people continue to come in to the United States, of course — illegally. Underground support networks — and well-established petty-fraud practices — make the precarious existence of illegal aliens somewhat easier. Hundreds of thousands, in any case, take the risk each year. And it may be noted that "undocumented" immigrants in the US are not subject to minimim wage laws, or any other labor regulation that applies to citizens — and so they are able to find work, albeit at very low wages (by North American standards). They find the wages thet earn to be better than in their own country. Many illegal aliens plan to work, send money home, and then return to their homelands. Others send the family's youngest, best educated wage-earner first, to establish a business before sending for the rest of the clan.

While land was still free in America, the country welcomed an unlimited flow of immigrants to help develop the nation. With the passing of the frontier, immigration was curtailed because with the restriction of natural opportunities, an increase in the number of laborers was feared as an increase in competition for jobs and a lowering of wages.

Another motivation for cutting down on immigration after World War I was a fear of "radical elements" coming into the country. This was another consequence of the deepening of economic problems brought about by the passing of the frontier. Embittered masses in cities, deprived of economic opportunity, were more open, it was feared, to revolutionary agitation. Especially after the Bolshevik Revolution in Russia, sharp immigration restrictions were imposed. They were eased later, but even during World War II there was not much relaxing of restrictions, even for those suffering persecution in Europe.

It is not in keeping with the tradition of America as the "Land of Opportunity" that so much immigration has to be "illegal", and that seeking a better life should not be considered a sufficient reason for entering the country.

Henry George noted that the frontier was closing and wondered where Americans could go now that the West Coast was reached: "Our land will not all be used; but it will be all fenced in." North Americans, however, have not shown inclination to emigrate in large numbers. People from other countries still seek entry into the US. But the problem of "fenced-in land" confronts both native Americans and immigrants. Instead of focusing on the immigration question, we would do better to solve the land question within our country.

2. Theories of the Business Cycle

Following are the most frequently encountered theories of depressions, recessions and business cycles, and some proposed remedies. Many models, often using sophisticated mathematics, have been devised, but it is striking to note how little the basic theories have changed since George's day.

Overproduction Theories: These state that business cycle decline is due to periodical surplus production of goods. Causes of overproduction vary with theories (e.g., initial overproduction in agriculture).

Objection: These theories fail to show why the operation of supply and demand does not cause the goods to be taken up.

Underconsumption Theories: These stress failure of consumers to buy goods, or "oversaving." Redistribution of income to poor would cause more consumption and eliminate business cycle.

Objection: These theories fail to show why traditional machinery of rate of interest does not prevent depression. If savings increased, rate of interest should fall and the savings would then be spent on capital goods — thus leaving no underconsumption.

Monetary Theories: These vary greatly, but they usually state that a boom is due to over-expansion of the money supply (which lowers the rate of interest and stimulates production); and that a slump is due to cessation of expansion causing projects to be abandoned.

Objection: The theories do not explain why there is a tendency to over-expand the money supply in the first place. In general, monetary theories describe what happens when governments use monetary policy in response to various economic imbalances. When asked to cite causes for these imbalances, they tend to cite the monetary-policy responses.

Psychological Theories: They usually contend that the entrepreneur's (or the consumer's) psychology is the dominant factor. Optimism spreads and leads to expansion. Giving way to pessimism leads to contraction, until something turns pessimism to optimism.

Objection: This does not explain change from one attitude to another. Businesses do not fail as a result of optimism or pessimism but because people do not have purchasing power.

Cyclical Theories: There are many of these (a famous one was Jevons' sun-spot theory). They contend that there is a time-pattern to business cycles, and that they are more or less inexorable. Their charts profess to show a regularity in the cycle.

Objection: They are not explanations at all. Facts are frequently distorted to fit the "cycle." Cycles are not immutable unless causes are known; otherwise it is like saying "the sun rises after the cock crows." Cycles discontinue when causes are removed.

Keynesian Theory: This theory also holds that business cycles are an inescapable reality in modern economies. The cycle starts with a divergence between planned savings and realized investment. In equilibrium these are equal. If planned saving exceeds planned investment, national income and employment fall. Expansion of money supply is proposed to encourage investment; also called for is "fine-tuning" of taxes and interest rates.

Objection: Like the monetary theories, this theory focuses on effects rather than causes. It does not explain unwillingness to invest. In Keynesian practice, inflation and unemployment were not supposed to coexist; but they have done so, thus weakening the theory. However, Keynesianism permits relatively effective tinkering without fundamental change, so it has a continuing appeal.

Georgist Theory: This states that speculation in land is the root cause. In anticipation of higher land prices, the rent demanded for land is pushed beyond what labor and capital can pay, and production stops. Landowners are demanding future production in the present. Recovery begins when stoppage of production starts to bring land prices down.

Objections are hard to find because most economists ignore George's explanation of the business cycle. If they talk about him, they limit their comments to a few words about the "single tax." George admitted the presence of other contributing factors, such as money and credit situations, but contended that land speculation is the basic cause. This theory has the advantage of explaining why production and purchasing power decline and how they recommence, which most other theories fail to do. It also accords with such facts as are available.

Lesson 9 — Public Debts; Functions of Government

Reading Assignment: *Social Problems,* Chaps. XIII - XVII

Employment and Inventions

1. Why is the competition of employers for labor not as great as the competition of laborers to find employment? (131-132, 138; 6 pts.)

Land being monopolized, the self-employment of labor is difficult, and so labor must compete for jobs.

2. Suppose people were freed from their dependence upon land. Would there be an unemployment problem? Explain. (133-135; 5 pts.)

No. Workers could then always employ themselves without restriction.

3. Must we all go to work directly on the land in the extractive industries in order to prevent unemployment? (136-138; 6 pts.)

No. It is only necessary for land to be freely accessible for those who want to work on it.

4. What general conditions contribute to the popular idea that inventions cause unemployment? (139-140; 5 pts.)

As productive power increases, people notice unemployment, unequal distribution of wealth and growth of monopolies. Not seeing the basic cause, they blame new inventions.

5. How does a labor-saving invention in one industry increase the productive power of all labor? (140-142; 5 pts.)

By increasing the quantity of a particular commodity, its price is decreased, thus increasing purchasing power and stimulating the production of other commodities.

6. To whom does the increased production due to labor-saving devices ultimately accrue under present conditions? (142-144; 6 pts.)

To those enjoying a monopoly or privilege, especially the monopoly of land.

7. If all social services were furnished free to the public, who would ultimately benefit? (144-145; 5 pts.)

Rents would increase. The landowners would ultimately benefit.

8. a) Under what conditions does chattel slavery arise? (5 pts.)

Slavery arises where population is sparse, land is of little value and labor is dear.

b) Under what conditions does it cease? (149-151; also see Supplement; 5 pts.)

Slavery ceases when population increases, land becomes valuable and labor cheap.

9. Compare chattel slavery with the slavery that results from private property in land. (157-160; 5 pts.)

Although chattel slavery, particularly the racial variety of the United States, left terrible psychological scars, chattel slaves often had a better material standard of living than free people. The chattel slave, being an investment, was cared for by the owner as valuable property. The slavery that results from private property in land is an impersonal thing. Unemployed laborers are not the responsibility of any employer, and are easily replaced. For example, when a child worker became injured in the New England textile mills of the 18th and 19th centuries, its whole family was often immediately replaced.

Public Debts and Indirect Taxation

10. How do public debts and indirect taxation strengthen the land monopoly? (161-162; 5 pts.)

They are ways by which landowners shift their tax obligations onto the rest of society.

11. Are public debts a device for borrowing from future production? (162-163; 5 pts.)

No. They are merely a device for obtaining control of wealth in the present by promising that a certain distribution of wealth in the future shall be made.

12. How do public debts foster corruption and war? (163-167; 5 pts.)

They enable governments to acquire, by borrowing, large sums which would not be so easy to acquire by taxation. Wars become easier to wage, and the opportunities for corruption become greater.

13. Why are indirect taxes favored by special interests? (165-170; 5 pts.)

Because extra profits are made on these taxes when they are shifted to the consumer. Also, because they are commonly levied in small increments, they may be increased, and raise huge revenues, while escaping the conscious awareness of those who ultimately pay them.

The Functions of Government

14. What is the primary purpose of government? (171-172; 6 pts.)

To secure equal rights for all.

15. In what ways can government be simplified? (172-175; 5 pts.)

Assert the equal right to land. Eliminate wastefulness in the armed forces. Simplify the legal machinery. Simplify electoral methods.

16. What are the results of governmental attempts to legislate virtue? (173-174; 5 pts.)

They encourage evasion and bring law into contempt; reduce the standard of right and wrong to a legal question; and encourage the rogue who can stay just within the law. (A classic example was Prohibition.)

17. What does Henry George say government should do about businesses which are in their nature monopolies? (176-189; 5 pts.)

George asks that governments should regulate businesses that involve monopoly and take over businesses which are in their nature complete monopolies.

18. Taking note of Henry George's views (p. 178-193) and Part 2 of the Supplement, offer your own views on which functions might be performed by government and which by private enterprise. (6 pts.)

a) Money
b) Railroads
C) Postal service
d) Schools
e) Public utilities
f) Mass communications

18. George proposes that all these functions be operated (or at least regulated) by government. Acceptance of this proposal, however, is not essential to acceptance of the basic teachings of George. There are those who follow the Georgist philosophy who have differing views on this question; there are others who agree with George's position in this respect. There is room for discussion.

Supplement — Lesson 9

1. Voluntary and Involuntary Labor

In Chapter XV of *Social Problems,* Henry George points out that chattel slavery arises where land is free and hired labor is not easy to obtain; and that it disappears where land is fenced in, and labor, unable to employ itself on free land, becomes available for hire at low wages.

George's point is supported by the book *Involuntary Labor Since the Abolition of Slavery* by W. Kloosterboer (E.J. Brill, Leiden, Netherlands, 1960), in which a worldwide survey is made of compulsory labor in forms other than chattel slavery. It is noted that after slavery was abolished in the colonies held by European powers and in the U.S., some form of involuntary servitude continued in most cases. This often took the form of compulsory labor contracts and "debt bondage."

Kloosterboer cites the thesis of J.J. Nieboer in *Slavery as an Industrial System* (1910) which may be summarized as follows: Slavery will generally occur where there is still free land available ("open resources"). Since labor is independent there is not sufficient labor for hire, and slaves are imported or natives reduced to slavery. Where there is no longer any free land ("closed resources"), slavery will disappear, since there will be enough people prepared to work for others, rendering slavery superfluous.

Kloosterboer tests this theory with respect to compulsory labor as a substitute for slavery and finds that it holds up generally. In Africa, in the East Indies and the West Indies, and in South America, while there were "open resources", it was difficult to obtain labor, and slavery prevailed. Often slavery was abolished just as the best lands were enclosed. More people then sought employment. However, many natives still preferred to live an independent existence, just barely living on very poor land, rather than work for others. When the supply of labor was insufficient, landowners resorted to compulsory labor through various means to force these people to work for them, such as debt bondage, a strict enforcement of "vagrancy" laws, contract labor under penal sanction, and other methods. The more thoroughly resources are "closed", the less necessary is compulsory labor, as "voluntary" labor is then plentiful.

In the U.S., historians note that slavery would most likely have been phased out without the Civil War, since cheap labor was becoming available as the end of the frontier was approaching. After abolition the ex-slaves were unable to buy land and the promise of "forty acres and a mule" never materialized. Thus voluntary labor took the place of compulsory labor. This condition was strikingly illustrated in the television presentation based on the book *Roots,* which traced an African-American family's history before and after abolition. A condition tantamount to slavery prevailed after abolition when all the land was owned by former slave-owners.

Debt bondage still prevails where sharecropping is practiced. The landowners lend money to sharecroppers at such high rates of interest that they are required to work for them in order to pay it off. As a rule, they have to renew their loans, and so the debt bondage becomes a perpetual condition. (India is one example.)

Chattel slavery still prevails in a few areas of the world, where there are nomads who can still eke out a simple living from free land. Without an abundant supply of free labor, the formal institution of slavery is resorted to.

Compulsory labor also prevails in the prisons of many countries. There has been harsh criticism in the US of the prison labor used in manufacturing products in China for export. Yet, within the US, there is a growing tendency to use the labor of prisoners to reduce the cost of incarceration. Some companies, offered space and facilities virtually free, have set up shop in US prisons — dramatically reducing their labor costs.

2. The Functions of Government

Government is that part of organized society which is concerned with the formulation, maintenance, interpretation and enforcement of human laws. These laws are binding on all citizens, including

members of the government. Internally, government acts (or should act) to secure justice among citizens and to arbitrate disputes that arise out of the association of people in business and society. Externally, it acts to prevent and resist invasion, while seeking to maintain peace and cooperation with other nations. The main business of government is justice for all and special privilege for none.

If privileges are granted, their full value should be paid to the government. "Fee-simple" title to land is, of course, a privilege that is granted to individuals and firms. Other special privileges are: public utilities, transportation franchises, and radio and television wavelengths.

Henry George thought that "businesses which are in their nature monopolies" should be governmentally owned and operated. In this category he placed public utilities and railroads, as well as postal service, public schools and the issuance of money.

Many who agree with George on the land question do not agree with him on this point. They say that all or most of such business should be left to private enterprise; they point to the inefficiency too often associated with governmental operations; and they warn against too much governmental power.

Others, however, point out that our privately owned and operated passenger railroads are a failure and government fail systemss in Western Europe and Japan (which are otherwise oriented toward free enterprise) are much more efficient and satisfactory.

Competition is the best treatment, whether the service is private or public — if competition is possible. Since competition has been permitted in telephone service, the consumer has benefitted. Competition has lowered costs of some kinds of postal service. Many argue that public schools benefit from competition from private schools. (Of course, others point out that public schools are required to accept all students regardless of their ability to pay.)

It should be noted that a capital monopoly, in contrast to land monopoly, does not always remain a monopoly. Such is certainly the case with railroads, to which George pays much attention. They have since had to meet with competition from automobiles and airplanes. With these apparent monopolies as with other businesses, the best policy after all may be free and fair competition in an open market, with the payment the the government for whatever privilege is involved, and with some system of bidding to make room for newcomers. Actually, George could have applied his own basic argument more directly to the railroad situation. Their greatest source of power was the granting of huge tracts of public lands to the railroad companies without sufficient obligation on their part.

In mass communications, too, such as radio, television and satellite communications, exclusive use of a natural resource, i.e., wavelengths and space, is involved. Private operation ought to involve payment of the full value of exclusive use. In recent years this principle has been observed somewhat. As new frequencies have been made available, they have been sold by the federal government, rather than simply granted "in the public interest" as before. Of course, these monopolies can appreciate over time, and by selling them outright, the government has foregone any claim on their future increases in value.

In considering what government should and should not do, we ought not overlook the anticipated transformation in the character of society and government once George's basic reform of public collection of land rent (the single tax) is adopted. With people economically well off and government limited to its rightful revenue, the people and the government would move closer together, and governmental activities would be a more direct reflection of the wishes of the people instead of a semi-independent bureaucracy as today. Different communities might decide on different arrangements. Some might leave public utilities in private hands, others might prefer a governmental operation. In some cases, there might even be a public and private operation competing side by side; and communities would be competing with one another with their respective systems.

Many of the activities of government today are undertaken in response to persistent economic maladjustments. The Georgist reform proposes to remove the underlying problems. If that can be accomplished, then the government's position in society will soon become less bewildering — and less bloated.

Lesson 10 — Rural and Urban Problems

Reading Assignment: *Social Problems,* Chaps. XVIII - XXII

Abolition of Monopoly

1. What is the primary cause of political corruption, monopolies and other social maladjustments? (194-195; 4 pts.)

Private property in land. Land is the foundation of the economy and our inequitable system of land tenure breeds monopoly and corruption.

2. Mention some other monopolies besides the land monopoly. (196-197; 4 pts.)

Banking and money monopolies; monopolies gained by manipulating the stock market; tariffs; patents; public utilities; labor union monopolies.

3. If all monopolies other than land monopoly were abolished, what would be the effect on the distribution of wealth? (197-200; 4 pts.)

Landowners would reap the gain.

4. Does Henry George claim that recognition of our equal right to the land is the solution to all social problems? (201; 4 pts.)

No. There is room for many other reforms. But he insists that without this basic reform, all other reforms are in vain.

5. Give reasons why absolute private property in land is unsound. (204-206; 4 pts.)

It is unjust, because land is not a product of labor, and its ownership gives some an unfair advantage over others. It is inexpedient, because it interferes with the best use of land as it encourages the holding of land out of use. It is unnecessary, because people do not need to own land, but only need to be secured ownership of what they produce.

6. What would be some of the benefits of taking rent for public purposes? (208-215; 5 pts.)

It would simplify government. It would permit abolition of all other taxes. It would yield a growing fund for public revenue. It would stimulate production. It would equalize the distribution of wealth. It would help break down other monopolies.

7. Why is rent the natural source of revenue for the needs of society? (214-218; 5 pts.)

Rent is well adapted for taxation. It is a socially created value and grows as society grows. Its taxation would not deprive any producer of the fruits of his labor. The use of rent as public revenue meets every economic and moral requirement.

Rural and Urban Problems

8. What is the main source of income for the small farmer? (220-221; 5 pts.)

His labor and capital. Typically small farmers occupy land whose value is relatively very small.

9. How would the working farmer gain from a single tax on land values? (222-224; 5 pts.)

The burden of taxation on the working farmer would be lightened, as his land is less valuable than large farms and plantations, urban lands, etc. Also, the lands of working farmers are generally less valuable than the improvements they have made.

10. What would owners of farm land lose by land value taxation? (224; 4 pts.)

The selling value of their land. But its usefulness would be as great as before even greater.

11. What conditions are eliminating the small farmer? (227-229; also see supplement; 5 pts.)

The march of inventions, large scale marketing, the concentration of large landholdings, and boom and bust cycles all tend to eliminate the small farmer. (These same tendencies also eliminate small businesses.)

12. Why is the private ownership of land so highly esteemed? (230; 5 pts.)

Land is a secure possession. It cannot be destroyed and it tends constantly to increase in value with the growth of society.

13. How do mortgages facilitate the transition from small to large farms? (232; 5 pts.)

As most good farm lands are already appropriated, the small farmer usually acquires property with a mortgage. As land values rise, mortgage terms become steeper. The small farmer often has to default on the mortgage, and the farm ultimately falls into the hands of a large landowner.

14. What conditions are necessary for the small farmer to profitably operate a farm? (232-233; 5 pts.)

Land must be cheap and labor dear. These were the conditions when America had a large public domain. They can be restored by the public collection of land rent.

15. What are the disadvantages of

a) extreme concentration of population? (4 pts.)

Crowded, unnatural, unwholesome living conditions.

b) extreme sparseness of population? (4 pts.)

Cultural impoverishment, isolation, monotony.

16. What are the basic causes of the unbalanced distribution of population? (238; 5 pts.)

The treatment of land as private property along with industrial progress. Land values go up, and people either have to crowd into cities or move far away from them.

17. How would the public collection of rent affect the distribution of population? (238-239; 5 pts.)

It would spread population where it is too dense and concentrate it where it is too sparse.

18. How would the public collection of land rent affect urban sprawl and energy conservation? (Supplement; 5 pts.)

If the full rent of land were collected for public revenue, urban sprawl would be eliminated, because land hoarding would be stopped. Cities' populations could increase dramatically within existing bounds, and public revenues would expand to meet growing infratructure needs. By the same process, the efficient use of existing infrastructure, coupled with adequate funds for its maintenance and improvement, would dramatically decrease the waste of energy and resources devoted to urban sprawl today.

19. In order to secure fundamental social reform,

a) what obstacles must be overcome? (4 pts.)

Apathy, ignorance, prejudice and shortsighted selfishness must be overcome.

b) what positive steps must be taken? (241-245; 4 pts.)

Right ideas must be formed, followed by the propagation of these ideas.

20. What steps would you propose for widespread understanding and adoption of the Georgist philosophy? (5 pts.)

Three aspects should be considered: 1. thorough understanding by a leadership group of people; 2, simplified exposition for the mass of people; 3, practical political steps leading to legislation.

Supplement — Lesson 10

1. The Farm Problem

The trend noted by Henry George toward the decrease in the number of small farms and the concentration of farms among large owners, has continued.

This concentration was accelerated by the closing of the frontier around 1890, advances in mechanized farming and increasing migration from rural to urban areas. Less than 10% of the working population are in all extractive industries in the US. About 3% are in farming as opposed to 50% in the 19th century.

Many of the family-sized farms were owned by late-comers who tried to convert marginal land into farms; and many of these have been given up. The younger generation, not seeing a future in struggling on the farm, move on into cities. The market for common, popular food products has been almost completely taken over by very large corporate farms. Additionally, such large-scale farming has benefitted from state- or federally subsidized water. This has enabled farms in California to supply fruits and vegetables year-round at prices that smaller, local farms cannot match.

Small farms can sometimes manage to turn a profit if they can enter a specialty or "niche" market, such as organics or herbs. Although such wholesome, locally-grown farm products are universally preferred, their prices are too high to compete in anything but a high-end, specialty market.

Use of large farm machinery goes along with bigger farms. Small farmers, trying to compete, go deeply into debt, then have to give up. Farm syndicates amass large land holdings, thus further concentrating ownership.

This trend is closely related to the availability of good farm land on reasonable terms. After the Civil War veterans were encouraged to homestead and there was an increase in the number of farms into the early 2Oth century. With the Great Depression and the dust bowl problem, the trend started reversing. After World War II the price of farm land rose sharply, driving out small farmers and would-be farmers and accelerating the trend toward concentration.

The US Department of Agriculture has administers a program that is supposed to guarantee the farmer a reasonable price for produce. The government buys surpluses at guaranteed prices. Farmers are supposed to produce less in order to cut down on surpluses, and are paid for keeping land out of use. Curbs and controls encroach upon the farmer's traditional independence, and the real gainers are the large owners who receive the lion's share of subsidies.

The farm problem remains unsolved and will remain so until fundamental reform is adopted, opening up better natural opportunities by eliminating land speculation and oppressive taxation.

2. City and Country

Another trend noted by Henry George has continued, and intensified: people are moving into urban areas from rural areas. A variation in more affluent nations is that as poor people move into cities, the middle classes move out — to suburban areas. The value of land follows them and eventually makes it more and more difficult to purchase homes. Enterprise "flees" from urban centers, creating blighted areas with little business activity or jobs. Often, land values in a blighted city neighborhood will become such a bargain that the area will be "gentrified" — there will be a trend to move back to the city. But, of course, the value of land follows the people back — in fact, it anticipates them with speculative land prices and high rents. These high rents are unaffordable to the existing population; gentrification, essentially, throws them out of their homes.

In general, urban and suburban areas are increasing in population, and rural areas are declining. Many problems come in the wake of these trends. Rapid growth of suburban areas leads to a great deal of land speculation, which in turn contributes to odd, wasteful — often nonsensical — development patterns. Subsidized highway construction and automobile use creates communities that are almost impossible to

traverse without cars. This leads to pollution, waste, noise, and the loss of a sense of community. Meanwhile, rural areas that have lost their small-farming base, and from which manufacturing forms have fled seeking cheaper labor and regulation costs, become desperate for employment opportunities — and hope that the government will build one of its many new prisons in their town, so there will be a few jobs.

The quest for a better life by moving continues. But the same problems pursue those who move — rising land values, tax problems, urban slums, etc. — "progress and poverty." These problems will persist until they are confronted and dealt with in a fundamental way, as Henry George urged.

3. The Environment

There is great concern over the environment — pollution of land, air and water, industrial wastes, over-development, destruction of nature. Some "deep environmentalists" even go so far as to believe that human beings are like a cancer to the Earth's ecology and should radically decrease their numbers.

Many of these problems result from our system which permits land monopoly and land speculation. As a community grows, large areas are acquired for speculation. This results in "leap-frog" development, with people moving further out to find affordable land. Thus all the facilities needed for a growing population are stretched out and made more expensive — transportation, utilities, water supply, garbage disposal, markets and other requirements.

If this condition were corrected, people and industries could move out from the centers of population at a more normal pace, thus making unnecessary the waste and expense, and a premature invasion of nature. And, they could re-claim established infrastructure, at a fraction of the cost of building anew.

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

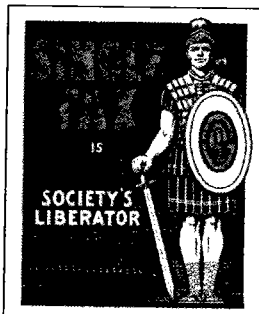
The environmental problem is exacerbated where land monopoly is at its worst. In Brazil, the destruction of the rain forest is deplored. People crowded in urban slums go to farm these areas, not well suited for agriculture, because prime agricultural land is owned by a few *latifundistas*. The public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

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

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

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

Environmentalists need to consider the profound benefits of the public collection of land rent.



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