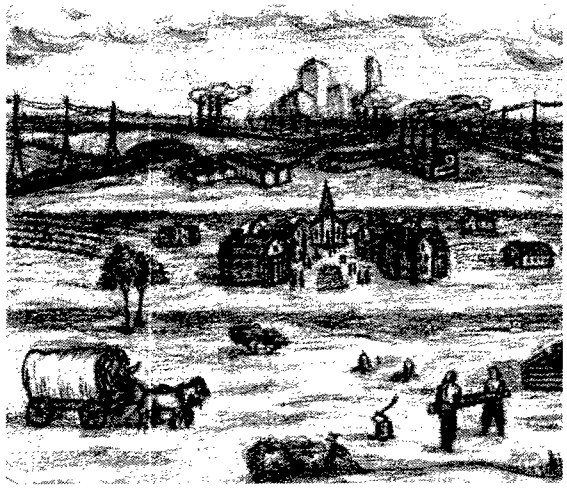
Henry George Institute



Fundamental Economics



Teacher's Guide

Correspondence Course Teaching: A Great Way to Move Forward

Fundamental social betterment, to be lasting, must come in response to a demand from the people, and the people must understand before they can demand. If we are ever to get the Single Tax on the statute books so that it will stay there, we must first get it into the minds of the people. We must get the people to want it and to get them to want it we must first get them to know it. — Oscar Geiger, founder of the Henry George School of Social Science

Here at the Henry George Institute, correspondence courses in Georgist economics and philosophy are our primary means of accomplishing this great task. Our progress is slow, but it is continual. We are proud that a number of today's most acomplished Georgist advocates were introduced to the movement through our courses.

There is no better way to understand a great and far-reaching set of ideas than to teach them — and there is no better way to begin teaching than to work one lesson at a time, with one student at a time, making a personal connection and dealing with questions as they arise. Our courses are undertaken primarily as "education for its own sake". Most students study *Progress and Poverty* in order to understand social problems and remedies, not to enhance their professional credentials. Therefore, the quality of the "teaching experience" in this program is almost always very high. Most of our students are eager to learn. You will not have to spend your energy on motivating them; you will be able to focus on real teaching.

In earnest of that, the HGI seeks to take care of as many practical details as possible. We keep records; we address envelopes and provide postage; we provide all materials. The teacher's responsibility is simply to provide helpful correction to the student's lessons and a brief encouraging note (we even provide the stationery).

Although that personal note is a very important part of the teacher's job, it isn't necessary to say a great deal. You are corresponding with a student, not a pen-pal. Just a few notes on the student's progress and perhaps a short introduction to the next lesson is quite sufficient. It supplies a "personal touch" that students truly appreciate. Indeed, our "distance education" program is far superior to many, because we offer one-to-one dialogue between student and teacher.

Some teachers, seeing the limited space provided on the lesson sheets, urge their students to use separate paper. This is perfectly fine if you find it helpful. However, as you will see on the answer sheets, most answers in this course can be stated quite briefly. Long rambling answers, or long quotations from the text, more often indicate a less firm understanding of the concept at hand.

Many students, especially those with less sophisticated backgrounds, tend to quote the text. Even when the quotations they choose are precisely correct, it is still a good idea to discourage this practice. Remind your student that this is a course in political economy, not English composition. They are not being graded on their writing style or their mastery of English — and an answer composed in the student's own words is always a better indication of their progress.

Often students will ask for information on other courses, saying they are eager to complete the program. Usually it is best to downplay such requests. Thorough grounding in the basic principles offered in *Progress and Poverty* is, of course, our paramount goal. At the end of this first course, the student is provided with:

— a certificate, which will first be given to you to sign
— information on the Henry George Institute
— a copy of the brochure "An Introduction tot he Georgist Philosophy and Movement"
— a copy of *The Georgist Journal*
— information on and invitation to enroll in *Applied Economics*

If you are a newcomer to HGI teaching: Welcome! If you are a veteran: Thanks for all your help! In either case, I hope you enjoy this updated edition of our classic *Fundamental Economics*. Please feel free to offer any corrections or suggestions.

— Lindy Davies, Program Director

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Henry George Institute
Course in Fundamental Economics
Textbook: *Progress and Poverty* by Henry George

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

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

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

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

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

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

1. The Problem
2. Definitions; Production and Wages
3. Population; the Law of Rent
4. The Laws of Wages and Interest
5. The Effects of Progress on Distribution
6. Depressions and Recessions; Proposed Remedies
7. The Remedy; its Justice
8. Application of the Remedy
9. Effects of the Remedy
10. The Law of Human Progress

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

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

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

Henry George Institute

The Henry George Institute is incorporated as a non-profit organization in New York State. Founded in 1971, it is a membership organization supported by dues and contributions. In the belief that the philosophy of Henry George has important answers to today's urgent problems, the Institute is established to promote this philosophy by educational means. Its offering of correspondence courses in one of the chief ways of doing this. The Institute has taught students in over 150 countries. An online version of this course — and much more — can be found at ***http://www.henrygeorge.org***

Fundamental Economics is the first of three courses — each complete in itself — in *Principles of Political Economy*. The second course, *Applied Economics,* deals with further applications to problems national and international. The third course, *Economic Science,* returns to a study of economic theory in depth. A certificate is given at the end of each course, and the third certificate designates the student as a Graduate of *Principles of Political Economy,* having completed the full study. *(Note:* The Henry George Institute is not authorized to grant academic credit. Any granting of such credit for our courses would have to be taken up with the accredited institution with which the student may be associated.)

Henry George (1839 - 1897), The United States's leading economist, is the author of several books, including *Progress and Poverty,* the text of our basic course. Besides writing, he lectured, travelled extensively and ran twice for Mayor of New York. He has had a great influence on thinkers and leaders, and on legislation in many parts of the world.

Appreciations of Henry George

"It would require less than the fingers of the two hands to enumerate those who, from Plato down, rank with Henry George among the world's social philosophers." — John Dewey

"Men like Henry George are rare, unfortunately. One cannot imagine a more beautiful combination of intellectual keenness, artistic form, and fervent love of justice." — Albert Einstein

"People do not argue with the teaching of George; they do not know it. He who becomes acquainted with it cannot but agree." — Leo Tolstoy

"The greatest economics treatise ever written by an American — Henry George's *Progress and Poverty.*" — Michael Kinsley

Comments by Students

"This course has been a mind-opener for me. It makes comprehensible that which is complex." — D.H.

"*Progress and Poverty* is the best thing that has fallen into my hands. I thought I knew something about the economy, but until I took this course, I did not realize how much there was to learn." — A.J.T.

"I would recommend *Progress and Poverty* to every citizen of good will on this planet. Once you read it with an open mind you will never think the same again." — E.M.

"I find the course excellent. The questions are very well designed. The page references give any serious questor an opportunity to learn exactly what George said." — J.R.H.

"The facts upon which I have relied... are facts of common observation and common knowledge, which every reader can verify for himself, just as he can decide whether the reasoning from them is or is not valid." Henry George, *Progress and Poverty*

LESSON I — THE PROBLEM

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

First Lesson: _____ **Tenth Lesson:** ____

1. Is there a known limit to human desires?

2. Are periods of recession and unemployment unavoidable in a market economy?

3. Would you consider the following to be wealth?

   (a) Trees in a virgin forest
   (b) Wood in a lumber yard
   (c) Fish swimming in the ocean
   (d) Fish in the market
   (e) Untapped oil in the ground
   (f) Gasoline in your car
   (g) A house
   (h) The lot on which the house stands
   (i) Money
   (j) Slaves

4. Does automation cause unemployment?

5. Can earth's resources support an increasing population?

6. Would you consider the work of the following people as labor?

   (a) Coal miner
   (b) Entrepreneur
   (c) Traveling salesman
   (d) Independent storekeeper
   (e) Slave

7. Which of the following statements do you consider right?

   (a) Taxes should be levied according to ability to pay.

   (b) Taxes should be levied according to benefits received.

8. Would reduced taxes increase purchasing power?

9. Should the government place a limit on a person's earnings?

10. Can labor be employed without the aid of capital?

11. Put a check in the column after the statement you consider correct:

    (a) Employers pay wages out of their capital.

    (b) Employers pay wages out of what labor produces.

12. Put a check in the column after the statement you consider correct:

    (a) Widespread unemployment is due to personal laziness, incompetence, lack of skill, etc.

    (b) Widespread unemployment is due to economic maladjustments over which the individual has little control.

13. Is every one entitled to:

    (a) A living?
    (b) The opportunity to earn a living?
    (c) Neither?

14. Do the following prevent poverty?

    (a) Social Security
    (b) Unemployment Insurance
    (c) Minimum wage laws
    (d) Guaranteed annual wage
    (e) Job training
    (f) Higher education

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

LESSON 2 — DEFINITIONS; PRODUCTION & WAGES

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Reading Assignment: Progress and Poverty, *Book I.*

The Meaning of the Terms

1. What is political economy (or economics)? (See supplement, 4 pts.)

The science which deals with the nature of wealth and the natural laws governing its production and distribution.

2. What is wealth? (41-42, 49; 5 pts.)

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

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

a) land: (3 pts.)

No; it is not a product of labor.

b) bank notes, stock certificates, bonds: (3 pts.)

No; they are but evidences of wealth or claims on wealth. Their increase or decrease does not affect the sum total of wealth. Money is a means to exchange wealth rather than wealth itself.

c) knowledge, skill, experience: (3 pts.)

No; they are not material things. They are human qualities, attributes of labor.

d) slaves: (3 pts.)

No; they are human beings whose labor is exploited.

4. What is production? (See supplement; 4 pts.)

All processes involved in making wealth and bringing it to the ultimate consumer.

5. Name and define the three factors in the production of wealth. (32-38; 3 pts. ***each)***

1) Land: The entire material universe exclusive of people and their products.
2) Labor: All human exertion in the production of wealth.
3) Capital: Wealth used to produce more wealth; or, wealth in the course of exchange.

Land and labor are primary factors; capital is a derivative factor. Some economists mention other factors such as "enterprise" and "government" but on examination they are found to be one of, or a combination of, the three basic factors.

6. Give examples of:

a) wealth that is capital: (3 pts.)

Wealth that is capital: Books in a bookstore, car used in business, carpenter's tools.

b) wealth that is not capital: (3 pts.)

Wealth that is not capital: Books in the home, car used for pleasure, hobbyist's tool kit.

7. Are transportation and merchandising part of production? (48; 3 pts.)

Yes, production includes not merely the making of things but also bringing them to the ultimate consumer.

8. When is production completed? (48; 4 pts.)

When the product reaches the ultimate consumer.

9. What is distribution? (See supplement; 3 pts.)

The division of wealth among the factors which produce it.

10. Name and define the three avenues of distribution. (See supplement; 3 pts. each)

1) Rent: That part of wealth which is the return for the use of land.
2) Wages: That part of wealth which is the return to labor.
3) Interest: That part of wealth which is the return for the use of capital.

Any other returns, such as "profits" and "taxes" are derived from one or more of the three basic returns.

Production and Wages

11. What is the problem of poverty as defined by Henry George? (17; 4 pts.)

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

12. Does poverty still accompany progress? (3 pts.)

Yes. In our most advanced cities, slums spread and poverty festers. Real wages are eroded by inflation, high taxes and other factors; unemployment persists.

13. When a laborer is self-employed, are his wages drawn from capital? (50; 3 pts.)

No, from the product of his labor. Examples: fishing, fruit picking.

14. When laborers are paid by a percentage of what they produce, where do wages come from? (53; 3 pts.)

From their own production. Examples: share-cropping, selling on commission.

15. When laborers are paid with money, is the result any different from paying wages in kind? (55-56; 3 pts.)

No, it is essentially the same thing; money but represents the wealth produced. "Production is always the mother of wages."

16. Does labor precede the payment of wages? (57-59; 3 pts.)

Yes. Labor must first produce the wealth from which its wages come.

17. When a worker is engaged in a long-range enterprise,

a) Is the amount of capital lessened when wages are paid? (3 pts.)

a) No.

b) What stands in the place of the wages he or she receives? (3 pts.)

b) The value his or her labor is adding to the enterprise.

c) Where do the wages come from? (64-68; 3 pts.)

c) From the product of labor.

18. Give an illustration of a long-range enterprise and describe how value is added by labor as wages are paid. (3 pts.)

An example is the erection of a high-rise building. As each floor is added, the value of the building is increased. The value each laborer has added each week stands in place of the wages he or she is paid.

19. Do we live on production from the past, or on production that is continually going on (current production)? (75-76; 3 pts.)

On production that is continuously going on — that is, current production. If production stopped, past production would not last long.

20. Does lack of capital explain the persistence of poverty in undeveloped countries? (81-84; 3 pts.)

No, lack of capital is usually the result of conditions which are also causing poverty — unjust laws, political corruption, ignorance, monopoly, etc. Those countries of the "third world" which have the deepest poverty also have a small minority of very rich and powerful people.

21. Does lack of capital explain the persistence of poverty in advanced countries? (87-88; 3 pts.)

No, there is often the deepest poverty where capital is most abundant. Our largest and most advanced cities have the worst slums. We must look further for the real cause of poverty.

SUPPLEMENT — LESSON 2

DEFINITIONS

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

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

These laws are not the ordinances and statutes enacted by government. They are natural laws that deal with people's efforts in society to procure the material means (wealth) to satisfy human needs and desires. The natural laws of political economy are laws of human behavior. They follow from the first basic axiom of economic behavior: ***that people seek to satisfy their desires with the least exertion.*** These natural laws are determined by observing the functional characteristics of the factors of production — land, labor and capital. By taking care to specify the distinctive and exclusive aspects of each factor, we can always be sure of what we are referring to. Then we can build our economic analysis on a solid foundation.

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

To be classified as wealth, a thing must have all of these characteristics:

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

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

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

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

It should not be surprising that this strict definition of wealth differs from common uses of the term. After all, land is not produced by human labor — yet it is a valuable asset. Money does not directly satisfy human desires — yet people are quite happy to have it. To individuals, these distinctions make no difference at all; land and money are sensibly considered part of an individual's "wealth". Therefore, we must be careful to distinguish between personal distribution, and the true object of our inquiry: the production and distribution of wealth in society.

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

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

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

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

Everything physical (other than human beings) which is not the result of human effort is within the economic definition of land. This concept thus includes not merely the dry surface of the earth, but all natural

materials, forces and opportunities. Untapped mineral resources are land, as are broadcast frequencies. The most important aspect of urban real estate — location — is an aspect of land value as well.

Labor: All human exertion in the production of wealth.

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

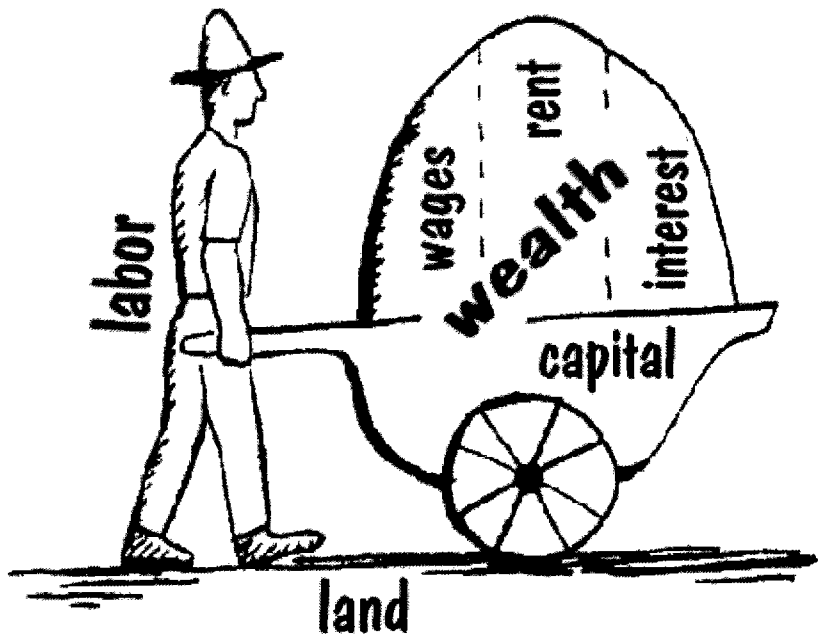
Capital: Wealth used to produce more wealth, or wealth in the course of exchange.

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

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

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

The avenues of distribution are rent, wages and interest.



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

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

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

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

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

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

In general, the terms and definitions used in this course are used with the objective of understanding the social, or aggregate principles of production and distribution of wealth. Accountants and entrepreneurs neccessarily use somewhat different terms and definitions. As we will see in lesson IV, "profit" is a term of personal distribution that does not enter into the study of social, aggregate distribution in political economy.

LESSON 3 — POPULATION; THE LAW OF RENT

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

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Population and Subsistence

1. What is the Malthusian theory, often advanced to explain the persistence of poverty? (91; 4 pts.)

That population tends to increase faster than subsistence. According to this theory, a point is reached where the earth can longer support the population.

2. Have the populations of supposedly over-populated countries actually outrun the means of subsistence? (113; 4 pts.)

No; large unused areas and inefficiency of production indicate that a great deal more could be produced in these countries than is being produced. (Example: Iraq has a sparse population. Once a rich agricultural country, its people now live in poverty despite oil development. Denmark has a dense population and has a high and well-distributed standard of living despite poor natural resources.)

3. In these countries, does all the wealth go to those who produce it? (113-128; 4 pts.)

No. In all such countries a large number of non-producers are supported in luxury and production is retarded by unjust laws. (Examples may be found everywhere in the world.)

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

No. High standards of living prevail in some countries which have either low or high densities of population; and the same is true of low standards of living.

5. Where do we find the greatest evidences of wealth, in densely populated communities or in sparsely populated communities? (143; 4 pts.)

The greatest per capita production of wealth is found in densely populated countries.

6. Does the increase of population decrease or increase the power to produce wealth? (150; 5 pts.)

The increase of population increases the power to produce wealth. A greater number of people can produce a larger amount of wealth per capita than a smaller number. (Specialization of labor, exchange of wealth and concentration of population enable each producer to produce more wealth.)

The Laws of Distribution

7. In political economy, what is meant by:

(a) the distribution of wealth? (4 pts.)

The division of wealth among the factors that produce it.

(b) the laws of distribution? (See supplement; 4 pts.)

The natural laws which determine what portion of wealth produced is the return to each factor of production, i.e., land, labor, capital.

8. In what way are the laws of distribution correlated? (160; 4 pts.)

These laws must account for distribution of the entire product.

9. How are taxation and the income from monopolies related to the primary distribution of wealth? (155-156; 4 pts.)

They are impositions made subsequently to the primary distribution of wealth among the factors that produce it. The distribution of wealth among labor, capital and land is an invariable function of natural law; the divisions made by taxation or monopoly are variable and the product of legislation and privilege.

10. Is capital a necessary factor in the production of wealth? (164; 4 pts.)

No; labor exerted on land without the aid of capital can produce wealth, although of a primitive nature.

11. Is wealth always divided into three parts? Explain. (164; 3 pts.)

Not always. Without capital, for example, the produce may be divided as rent and wages; or only as wages where land does not yield rent; or only as wages and interest where capital is used but land is free.

12. Why is the term "profits" misleading in the study of political economy? (156-159; 4 pts.)

Because it is indefinite. A "profit" is either any amount received in excess of an amount expended, or the residual income after accounting for all opportunity costs (the latter is termed "economic profit"). In either case, it may consist of rent, wages or interest, or any combination of them. "Profit" is a useful concept in business, but not in political economy, where the goal is to understand the production of wealth and its distribution among clearly defined factors.

The Law of Rent

13. How does the common meaning of the term "rent" differ from its meaning in the economic sense? (165; 4 pts.)

In common parlance, rent includes payment for use of buildings, machinery and other forms of capital, whereas such returns are really interest. In the economic sense, rent represents a return only for the use of land.

14. If the same person is both owner and user of land, can there be rent? (165; 4 pts.)

yes. Rent is whatever the owner might obtain by letting the land to another person.

15. Can land yield rent if no one is willing to pay for its use? (166; 4 pts.)

No; rent arises only when someone is willing to pay for the use of land.

16. Does the rent of land depend only on its own productivity, or on its productivity as compared with land that can be had for nothing? (166; 4 pts.)

The latter. No matter how productive it may be, land will yield rent only if it has a greater productivity than land that can be had for nothing.

17. What qualities make some land more productive than other land in the following kinds of production? (4 pts. ***each***)

(a) Agriculture:

a) Fertility and nearness to markets.

(b) Mining:

b) Abundance and accessibility of mineral resources.

(c) Commerce:

c) Nearness to population, transportation communication and other facilities.

18. If labor must resort to land of inferior quality to get it free, what now happens to the rent on all better lands? (167; also study chart in Part 3 of supplement; 4 pts.)

The rent of all better lands will increase. This is so because the relative productive potential of all better lands will now be higher as compared to free land.

19. What is the margin of production? (See supplement; 4 pts.)

The least productive land in use; or, the best land to be had for nothing.

20. What is the Law of Rent? (168; 5 pts.)

The rent of land is determined by the excess of its produce over that which the same application (of labor and capital) can secure from the least productive land in use (the margin of production).

21. Where are the highest rents found? (170; 3 pts.)

In manufacturing and commercial centers; also on lands rich in natural resources (oil, minerals, etc.).

22. In what way are the Laws of Wages and Interest inferred from the Law of Rent? (171; 4 pts.)

We can tell by subtraction how much is left for wages and interest.

Production = Rent + Wages + Interest

Production - Wages + Interest = Rent

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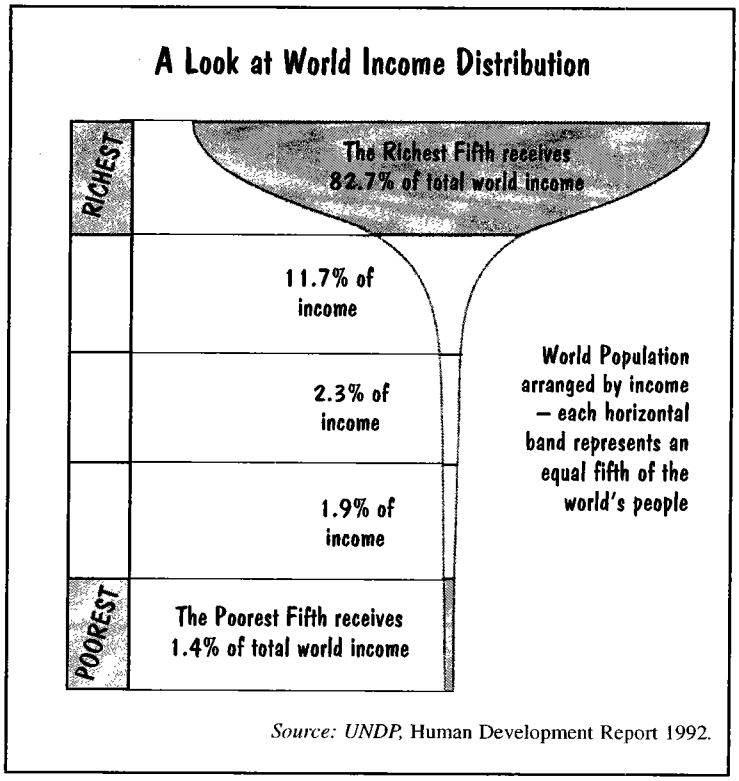
1. Some Facts on World Population

The world's population today is about 5.9 billion people. The FAO (United Nations Food & Agriculture Organization) estimates that with modern farming methods, the earth can grow enough food to feed 33 billion people — if all tillable land is used. However, the UN estimates a plateau population of about 12 billion by the mid-to-late 21st century.

Each person in the world could have an acre of land in an area smaller than North America, at an average density of 640 people per square mile — less dense than Japan today.

Africa, the world's poorest continent, has 20.2% of the world's land area, 12.6% of its population and 12.8% of its arable land. It has the greatest rate of population increase, and the greatest rates in increase in hunger, illiteracy, and desertification. Many nations in Africa, ravaged by disease and war, have actually lost population in recent years.

Arable land — defined as land capable of being cultivated in any given growing season — is a better measure of the food-production capacity than gross land area. Enough arable land exists in India to give each person in the country half an acre. In famine-ravaged Ethiopia, each person can have almost three-quarters of an acre of arable land.

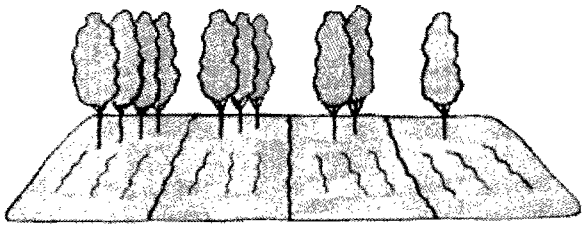


	Population (millions)	People per km² arable land	GDP per person	life expectancy M	life expectancy F	% literate (over age 15)	People per km² of forest
United States	272.6	154	$31,500	73	79	97	94
Bangladesh	127.1	1,209	1,380	56	56	38	5,885
Brazil	171.8	403	6,100	59	69	83	34
China	1,246.8	1,299	3,600	68	71	82	928
Ethiopia	59.6	441	560	39	41	36	211
India	1000.8	543	1,720	62	64	52	1,323
Indonesia	216.1	1,125	2,830	61	61	84	181
Japan	126.2	3,034	23,100	77	83	99	498
Mexico	100.2	424	7,900	69	75	90	130
Nicaragua	4.7	404	2,500	65	70	66	134
Russia	146.3	107	4,000	59	72	98	18
Taiwan	22.1	2,560	16,500	74	81	94	1,117

Source: CIA World Factbook, 1999

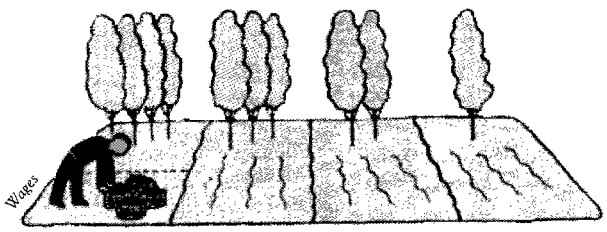
2. The Law of Rent

1. Different Grades of Land



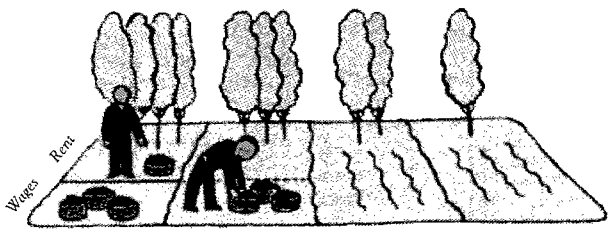
Here are four sections of a piece of land, with natural resources (fruit trees). Let us assume you can get one bushel of fruit from each tree. On the best section, you can get four bushels in one day. On the next section, with the same day's labor, you can get only three bushels.

2. First Comer — All Wages



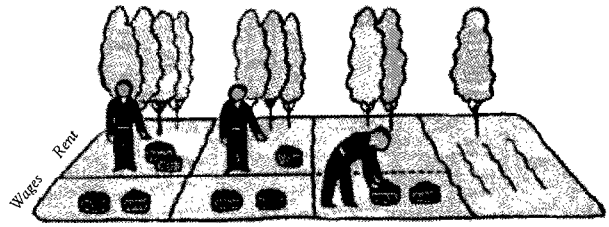
So far, all this land is free. The first person who comes to pick fruit will appropriate the best land available. This land becomes the margin of production (indicated by the dotted line). One day's labor gains four bushels: the worker's wages.

3. Second Comer — Rent Begins



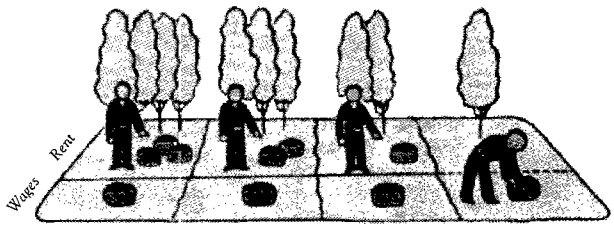
The next comer has to be content with the three-tree section. (This now becomes the margin of production.) Here, three bushels are the reward for one day's labor. These two people do the same work, yet one gets four bushels and the other only three. Why? Because of the difference in the land. Since the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

4. Third Comer — Further Rise of Rent



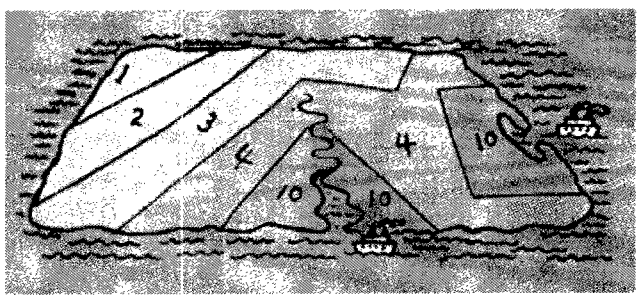
The third comer has to use the two-bushel land (which now becomes the margin). Wages on all lands are now two — for that is the most that can be had without the payment of rent. If the third comer wanted to work on the three-bushel land, its owner would take one bushel as rent. The rent represents what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

5. Fourth Comer — All Land Used



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

6. Other Natural Differences



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

LESSON 4 — THE LAW OF INTEREST AND THE LAW OF WAGES

HGI Fundamental Economics

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

The Law of Interest

1. What is interest as used in political economy and how does it differ from interest in its commercial sense? (173; 4 pts.)

In political economy, interest is that part of wealth which is the return for use of capital. Commercial interest is any return on a monetary loan and usually includes compensation for risk.

2. a) Is land capital? (3 pts.)

b) Is the return from land interest? (189; 3 pts.)

a) Land is not produced by labor and therefore cannot be classed as capital.
b) The return from land is rent and should be distinguished from interest. The return on a mortgage is called "interest," but insofar as the mortgage represents land, the return reflects rent.

3. In which cases do stock dividends and interest on bonds represent true economic interest, and in which cases do they not? (189-191; 4 pts.)

Stocks and bonds are not capital. They are evidences of ownership. If they represent true capital, the return reflects interest. If they represent land, the return reflects rent. (There may also be other elements in the returns that are not true economic interest, such as compensation for risk, monopoly returns, etc.)

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

In political economy, capital is a form of wealth, not a class of persons. Capital is used by labor as an aid in producing wealth and it is always labor that employs capital.

5. How is the quantity of capital increased and decreased? (195; 3 pts.)

Capital is increased by being produced and by converting existing wealth into capital. Capital is decreased by being destroyed and used up, or by removing existing wealth from its use as capital.

6. a) What is the maximum return that can be obtained for the use of capital? (195; 3 pts.)

b) What is the minimum return? (195; 3 pts.)

c) What is the normal point of interest? (198; 3 pts.)

a) The entire increase that its use will bring. Any larger return to capital would involve a loss to labor.

b) The replacement of capital. Any smaller return to capital would involve a loss to the owners of capital. (In exceptional cases an owner might take a loss rather than allow capital to deteriorate entirely.)
c) Interest will tend to settle around that point which will make the rewards of labor and capital equally attractive, that is, will give an equal result to either for an equivalent effort or sacrifice made.

7. Why do wages and interest tend to an equilibrium? (198; 4 pts.)

Because otherwise labor would not accept the use of capital, or capital would not be placed at the disposal of labor.

8. If interest tends to rise above the point of equilibrium with wages, how will the balance be re-established? (200; also see supplement; 3 pts.)

There will be a tendency to produce more capital, or a greater portion of existing wealth will be applied to use as capital. The resulting increase of capital will tend to reduce interest rates.

9. Suppose there were a shortage of sewing machines in relation to the availability of dressmakers: (3 pts. each)

a) What would happen to the price of sewing machines?

b) How would production of sewing machines be affected?

c) When would this tendency slow down?

a) It would rise.

b) More would be produced.

c) When the increased demand was satisfied.

10. Suppose a shortage of dressmakers in relation to the availablility of sewing machines: (3 pts. each)

a) What would happen to their wages?

b) How would this affect the flow of labor?

c) When would this tendency slow down?

a) They would go up.

b) More workers would seek employment as dressmakers.

c) When the increased demand was satisfied.

11. On what grade of land do labor and capital obtain the total amount of wealth produced? (201; 3 pts.)

On land obtainable without the payment of rent, i.e., at the margin of production. On all land superior to the margin, rent would command the excess production.

12. What is the Law of Interest? (203; also see supplement; 4 pts.)

"As rent arises, interest will fall as wages fall, or will be determined by the margin of production." (The first part of this law as given in the text, dealing with the "reproductive modes of production," is not essential. See last paragraph on page 203).

The Law of Wages

13. In a complex society why do we find great differences in wages? (207-210; 4 pts.)

Because of different skills and abilities; agreeableness or disagreeableness of occupations; expense of learning them; etc.

14. What are the occupations which most frequently use land at the margin of production and on whose wages all other wages depend? (212; 4 pts.)

The extractive industries, those which procure wealth directly from nature; farming, mining, lumbering, hunting, etc.

15. What will be the lowest wage for which a person will agree to work for an employer? (205; 4 pts.)

What the worker can earn working for him- or herself.

16. Where land is free, what part of production will go to the producers? (213; 3 pts.)

The whole product.

17. Where rent arises, what determines wages? (207-213; 3 pts.)

Wages will be determined by what labor can produce from the best available free land, i.e., the margin of production.

18. What is the Law of Wages? (207-213; 4 pts.)

Wages depend upon the margin of production (or upon the produce which labor can obtain at the highest point of natural productiveness open to it without the payment of rent), falling as it falls and rising as it rises.

19. If all natural opportunities were reduced to ownership, what would happen to wages? (213; 3 pts.)

Wages would tend, by competition of laborers for natural opportunities and jobs, to the minimum necessary for subsistence.

20. Is the Law of Wages a law of quantity or a law of proportion? (216; 3 pts.)

It is a law of proportion.

Correlation of the Laws of Distribution

21. From what fundamental principle of human exertion do the three laws of distribution arise? (218; 3 pts.)

From the principle that people seek to satisfy their desires with the least exertion.

22. At what common point are rent, wages and interest determined? (219; 3 pts.)

At the margin of production.

23. Do the Laws of Rent, Wages and Interest account for the full division of the product? (3 pts.)

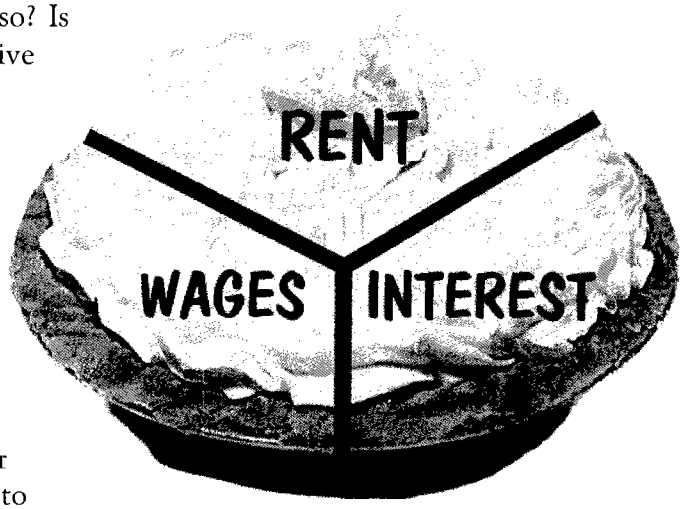
Yes.

SUPPLEMENT — LESSON 4

Capital, Interest and Profits

Capital is wealth that is used in production, or wealth that is in the course of exchange. That seems clear enough at first, but of all the classical definitions, it is the most readily forgotten and misconstrued. It might be helpful to remember some of the things that capital is ***not***. Capital is not money, or stock certificates, or bonds, because those are things that do not directly satisfy desires. It is not land, because land is not produced by labor. It is not any form of service or skill, because capital is the material product of labor, not the labor itself.

It has often been held that the concerns of Labor and Capital are at odds in our "capitalistic" economy. But is it so? Is capital ***itself*** capable of yielding a huge or exploitative income? Let's suppose we've inherited some capital — the rolling stock of a trucking company, say, worth $100,000 — but no land to put it on. What can we do to get an income from it?



THE WEALTH PIE

We could sell it, deposit the proceeds in a bank, and get a safe (but small) income. Or we could keep the trucks. But, of course, unless our trucks are used in the actual production of wealth, they will yield no income. And out of that income, we must pay to rent some land to put them on. Whether we use the trucks or not, we must maintain them, or they will soon be worth nothing. We must pay wages to ourselves or to someone else to drive them and service them. Perhaps we don't know how to run a trucking company, so we can sell the trucks and buy some form of capital that we do know how to use. But it must also be maintained — and operated — and located somewhere. How can the ownership of capital, per se, yield an exorbitant income? It sounds more like a headache than a goldmine!

But perhaps we could sell our inherited capital and invest in land! That may be the better investment. Then we can collect payment from the owners of capital for the use of our land — while we use our labor in some other lucrative way, or perhaps just relax!

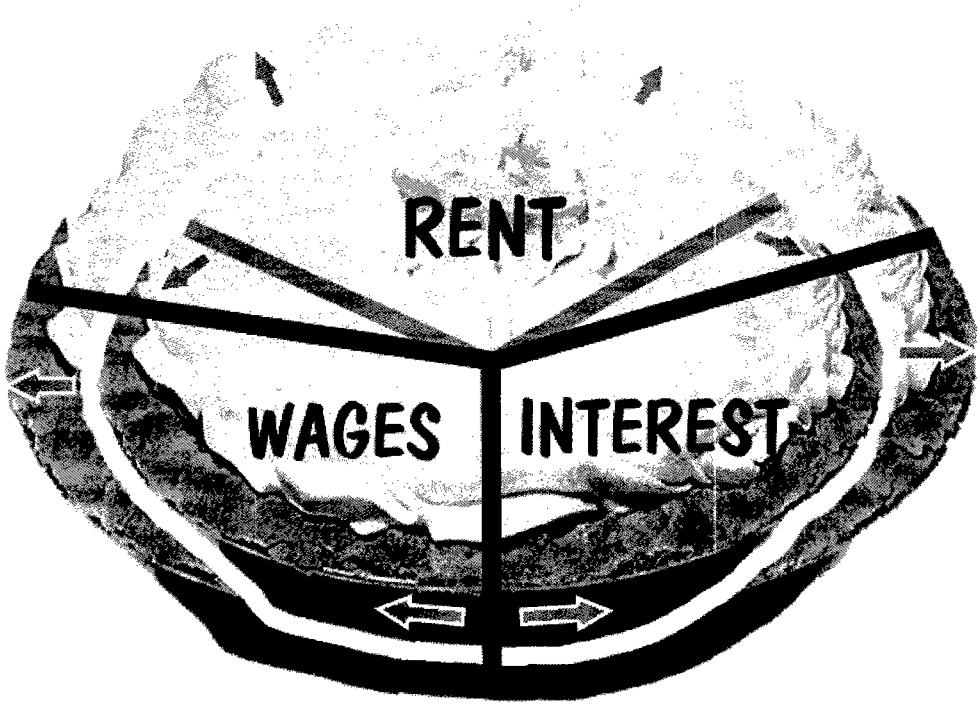
Capital cannot increase labor's production without the use of land. Like labor, capital must pay landowners for the value of the natural opportunities that it cannot do without. And like labor, the return that capital can get depends on the best available place where it can be used without paying rent.

That may be true — but do we not see "capitalists" getting rich in our "capitalistic" economy? We can clearly see wages going down while corporate profits go up!

But just exactly what are profits? And what is the relationship between profits and economic interest? First and foremost, we must recognize that while profit is an important consideration for individual investors and entrepreneurs, it has nothing to do with the Laws of Distribution at all. In this course we are concerned with the laws that determine how society's entire wealth output — the "wealth pie" — is distributed among the factors that produce it.

A big part of profit, for example, is the premium one might get on a risky investment. But if we are considering the whole society, we see that risk-taking winners and losers cancel each other out. "Risk premium" is a factor for individuals, but in the whole economy, the losses tend to balance out the gains.

Profits are the sum of three parts: economic interest (the return to capital), risk premium (and other wages, including "wages of superintendence"), and rent. A great deal of what George refers to as "spurious capital and profits commonly mistaken for interest" is actually income that comes from land. Today, corporate profits include large rents, and can be steady or rising even when the return on capital is falling.



THE DYNAMICS OF WEALTH DISTRIBUTION

Land is needed for all production — and its supply is fixed. Therefore, whenever production increases, demand for the fixed supply of land will increase — and the proportionate share of wealth taken by landowners will be greater.

With respect to each other, wages and interest tend toward an equilibrium in which neither factor sustains an advantage. This is because labor and capital need each other in production. Overall production (and hence, their own rewards) will suffer if shortages of either labor or capital go unmet. However, labor and capital can do nothing without access to land.

One reason why it is so vital to differentiate between profit and interest is that profits contain both rent and interest, and rent varies inversely with interest. That is because the return to capital, like the return to labor, depends on its best available alternative. Or in Henry George's terms, the return to capital (interest) depends on the margin of production, just as much as does the return to labor (wages). As the margin of production goes down, so do wages and interest — but rent rises.

It is this confusion over terminology that leads to the persistent notion that the interests of Labor and Capital are opposed. Both, after all, need land on which to produce. Capital tremendously raises the output of labor (and without labor, capital can do nothing). Therefore, the returns to one cannot long increase at the expense of the other.

However, the interests of labor and capital and that of monopolists (particularly landowners) are indeed opposed. Labor and capital seek to engage in the production of wealth, and gain a return for it. But the landowner can command a payment from them, not because of any contribution to production, but merely for access to natural opportunities that enable them to prodice at all. Land speculators can increase their income by denying land access to labor and capital. That is the true opposition.

Note: *Because of confusion regarding the term "interest", many writers prefer to restrict the term to the sense of "bank interest", or the return on money that is loaned. For the return to capital, which George called "economic interest", they use another term such as "capital yield". Because there is no unanimity about this usage, however, in this course we continue to use the term "interest" (or "economic interest") as Henry George defined it.*

LESSON 5 — EFFECT OF PROGRESS UPON DISTRIBUTION

HGI
Fundamental Economics

Reading Assignment: Book IV.

1. Name the changes which contribute to material progress. (228; 3 pts.)

a) Increase of population.
b) Improvements in the arts of production and exchange.
c) Improvements in knowledge, education, government, police, manners and morals, so far as they increase the power of producing wealth. (B and C may be considered together since they have the same effect.)

Effect of Increase of Population

2. What is the effect of increase of population upon the productive power of labor? (232; 3 pts.)

To improve it. 100 people working together can produce more than 100 times as much as one person working alone. Increased population makes possible division of labor, specialization and exchange.

3. What does increasing population tend to do to the margin of production? (232-233; 4 pts.)

Extend it to lower levels without lessening total productivity.

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

To increase rent and lower wages proportionately.

5. Can increasing population raise rent as a quantity without reducing wages and interest as quantities? Explain. (234-235; 4 pts.)

Yes, increased population makes possible greater powers of cooperation and exchange. This increases production in densely populated localities, increasing their rents over other lands in use, without decreasing wages and interest as quantities.

6. Is the increase of rent due to anything done by the landholder as such? (241; 3 pts.)

No.

7. To what is the increase of rent primarily due? (242. Read pp. 235-242, "The story of the Savannah."; 3 pts.)

To increase of population.

8. How do inventions and improvements in the productive arts save labor? (241; 4 pts.)

They enable the same result to be secured with less labor, or a greater result with the same labor.

9. What is the effect of labor-saving improvements upon total production? (245; 4 pts.)

To increase production. The labor saved by invention can be used to produce either more of the same thing or other things.

10. What is the effect of increased production upon the demand for land? (245; 4 pts.)

To increase the demand for land; e.g., a) there is a more intensive use of superior lands; and b) there is a tendency to use additional lands.

11. How does the increased demand for land affect:
    a) the margin of production? (3 pts.)
    b) rent? (245; 3 pts.)

a) It lowers the margin when inferior land is brought into use.
b) It increases rent.

12. How do inventions counteract the fall of the margin? (245-249; 3 pts.)

By increasing the productivity of all lands — the best and the poorest.

13. What is the effect of inventions upon:
    a) rent as a proportion? (3 pts.)
    b) wages and interest as proportions? (252; 3 pts.)

a) A larger proportion of the product will go to rent.
b) a smaller proportion to wages and interest.

14. What is the effect of inventions upon:
    a) rent as a quantity? (3 pts.)

a) Rent usually goes up as a quantity. (There is such a thing, also, as a land-saving invention, which could, theoretically, contribute to a raising of the margin of production. But historically labor-saving inventions have played a far greater role; therefore the tendency had been for inventions to increase aggregate rent.)

b) wages and interest as quantities? (251-253; 3 pts.)

b) wages and interest may go up as quantities (although going down as proportions)

15. What is the effect on rent of governmental expenditures on roads, drainage, irrigation, bridges, etc.? Offer an example. (3 pts.)

They increase the value of land. Examples would include virtually any investment in public infrastructure that succeeded in aiding production, transportation or exchange.

16. As material progress goes on and rent advances, why is some land held out of use? (255; 3 pts.)

For speculation. Landholders expect further advances of rent and hold their land for a higher price than its current value.

17. How does withholding land from use affect the margin of production? (257; 4 pts.)

Holding land out of use forces the margin to a lower point than would otherwise be necessary.

18. Do the first settlers in a new area take only the land they can use? (256-257; 3 pts.)

No, they often take more than they need, holding part of it for speculation.

19. Is all the land in any city fully utilized? (257; 3 pts.)

No; every city has numerous vacant lots, or lots inadequately used (e.g., for parking lots).

20. Need land be withheld from use completely to lower the margin? Explain. (257; 4 pts.)

No; if the land is not put to the full use of which it is capable, the effect is similar to withholding it from use entirely. Examples are city slums, shanties near skyscrapers, and "taxpayer" properties.

21. What is the effect of land speculation upon farm land near the city? (257; 3 pts.)

Farm land is held not at agrarian land prices but at prospective urban prices. To get farm land, it is then necessary to go still further away from the city.

22. Why is land speculation not always profitable? (258; 4 pts.)

Land speculators sometimes misjudge the future increase in values — and when the "bubble" bursts, they may lose on their holdings.

23. What is the effect of land speculation on the production of wealth? (258; 3 pts.)

To restrict the production of wealth.

24. What is the effect of land speculation on:
    a) rent? (3 pts.)
    b) wages and interest? (259; 3 pts.)

a) To increase rent.
b) To lower wages and interest.

25. How does land speculation affect the person seeking to purchase a home? (4 pts.)

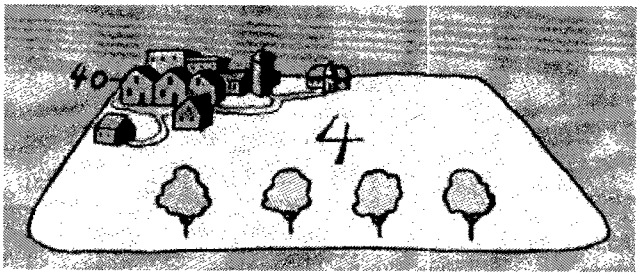
It makes a new home expensive in two ways: by adding a speculative premium to the selling price of land, and then by the greater amount of interest that must be paid on the higher mortgage debt made necessary by that speculative premium.

26. What is the limit to the speculative advance of rent? (260; 3 pts.)

The limit is the reduction of wages to the lowest point at which laborers will consent to work, and the reduction of interest to the lowest point at which capital will be devoted to production.

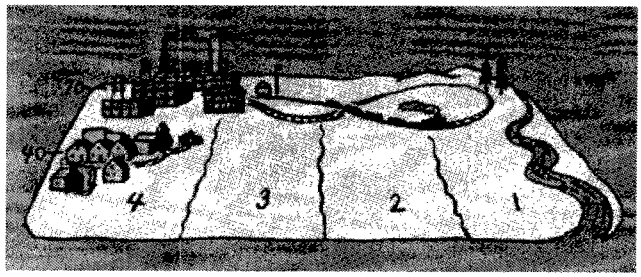
1. Effects of Progress and Speculation

Growth of Population



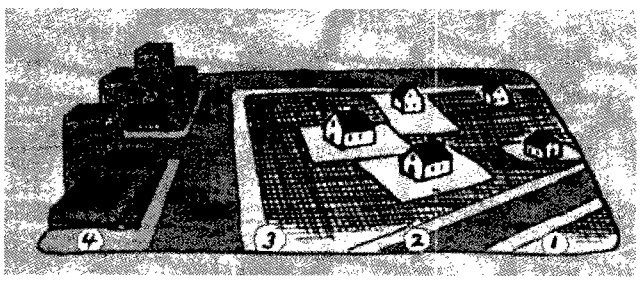
Assume that a good piece of agricultural land (as in our charts from Lesson III) yields four units of wealth. People settle in one section of it, and a town grows up there. The land within the town is no more fertile than any other — but productiveness of a new kind has arisen there. Because of the economies of cooperation and specialization of labor, it now yields forty instead of four. If the four land were free, what would be the rent in town?

Effect of Industrial Growth



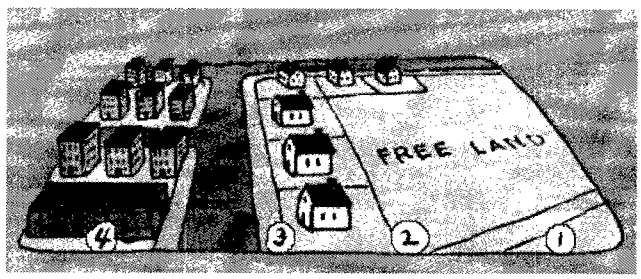
Industries grow, new labor-saving devices are invented, and much more can be produced. The productivity of industrial lands has now become seventy. Since more is produced, new materials are needed — and population continues to increase. This greater demand for land extends the margin of production to land that yields only one.

Land Speculation



When landowners keep land out of use, waiting for a higher price, people who wish to use land must resort to poorer lands, because the price asked for better lands is more than they can pay. This creates an artificial scarcity of land, and forces wages down. It also creates an enormously inefficient use of energy and public infrastructure.

Land Speculation Abolished



If there were no land speculation, people would use land whenever it was needed. There would be no artificial obstacle. This would cause only the best lands to be used. There would be no overcrowding, and no unnatural sparseness of population. Rents would advance normally (according to the land's current, not future value) and wages would not be forced down. There would be far less wasting of energy and natural resources.

2. Some Effects of Land Speculation on Modern Economies

— ***New Construction is Limited.*** If builders must pay too much for building sites, it takes from their profit by raising their costs. Their profit on investing in the building itself is what stimulates investing, which in turn is what makes jobs and incomes.

— ***Business Costs Go Up.*** Businesses that rent their premises also get squeezed by rising rents. Here's an example: A merchant goes into a new shopping center with a long term lease. His rent is often higher than his business can profitably support, but he pays it to hold his position for the later term when he hopes the rent will be a bargain. Landlords writing long-term leases get used to this, and hold out for high rentals.

— ***Nonproductive Investments Become More Profitable than Productive Ones.*** Consider those who already own land that they might improve. They have the option of selling the land to a speculator. Why would they want to improve the land if the profits on their improvements would yield little more than merely collecting the speculation-hyped value of the vacant site? Landowners will "site-sit" and wait, if they believe future development will be much more gainful than development for the current market. When the workaday facts of

today begin looking dull and prosaic next to the gleaming expectations of tomorrow, look out.

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

When speculation first starts to raise land prices beyond the sites' current use values, credit is extended farther in order to accommodate it. That is, banks lend on overpriced land, counting on a further rise. When the rise slows, they extend the loans, sometimes even granting new loans for paying interest on old loans. They use political pressure to get governmental agencies (e.g. the World Bank) to extend or underwrite these risky loans (e.g. in Latin America). When the bubble bursts, the loans are not repaid. This destroys capital. A great deal of capital was destroyed in this way in the great Savings & Loans debacle of the 1980s.

3. Land Rent and Selling Price

Rent — the return for the use of land — is the basic revenue from which land values are computed. Rent arises as lands above the margin come into use. (The value of items of wealth, on the other hand, derives from their cost of reproduction. But land has no cost of production, so its selling price must be derived from its potential to yield an income.)

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

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



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

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

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

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

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

This may be expressed mathematically as follows: Selling price (P) multiplied by Interest rate (I) equals annual Rental (R): $P \times I = R$. Thus Rental divided by Interest equals Price: $R/I = P$. (In this example, "interest" is used in its commercial sense of "rate of return" rather than its meaning in Political Economy, which is the return for the use of capital.)

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

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

LESSON 6 — DEPRESSIONS AND RECESSIONS

HGI
Fundamental Economics

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

Depressions and Recessions

1. a) What is a depression? (264-265; 4 pts.)

a) A stoppage of production (or a failure of production to increase proportionately to the growth of the community) causing a cessation of demand and resulting in a general economic paralysis.

b) What is a recession? (4 pts.)

b) The term "recession" usually refers to a milder form of depression, with the same symptoms in milder form.

2. What are some contributing causes of depressions and recessions? (263; 4 pts.)

The growing complexity of production which makes each stoppage propagate itself; defective currencies; sharp alternations in the volume of credit; protective tariffs.

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

Land speculation.

4. What is the effect of land speculation on:
   a) the margin of production?
   b) rent?
   c) wages and interest? (264; 3 pts. ***each***)

a) It lowers the margin of production.
b) It raises rent.
c) It lowers wages and interest.

5. With increasing land speculation, what is the effect on production? (264; 4 pts.)

As the margin is lowered, and wages and interest fall, labor and capital no longer find employment at their accustomed returns, and production begins to stop.

6. How does a stoppage of production at one point affect other points of production? (264-265; 4 pts.)

Stoppage of production at one point causes a cessation of demand, which then checks production at other points. Thus an industrial depression occurs.

7. In an open market, what is the effect on production of:
   a) speculation in commodities? (4 pts.)

a) Speculation in commodities raises the price until production is stimulated, which tends to lower the price again. Thus, speculation commodities aids production by evening out fluctuations in the supply of goods.

   b) speculation in land? (267; 4 pts.)

b) Land is fixed in quantity and speculation cannot increase the supply, so increased demand for land increases its price without aiding production in any way. Labor and capital are forced to make use of inferior lands, which decreases production.

The Basic Cause of Depressions

8. What is trade? (268; 4 pts.)

The exchange of commodities for commodities.

9. What is the result of a cessation of demand? (269; 4 pts.)

A cessation of production; and likewise a cessation of production means a cessation of demand.

10. Where must all production begin? (269; 4 pts.)

On the land. The primary and fundamental occupations which create a demand for all others are those which extract wealth from nature.

11. What is the main obstacle which prevents labor and capital from producing? (273; 4 pts.)

Denial of access to land because rents are too high. This is in effect a "lockout" of labor and capital by landowners. This check to production, beginning at the basis of interlaced industry, propagates itself from exchange point to exchange point until unemployment is widespread.

12. What three conditions contribute to restoring production after a period of recession or depression? (265 and 281; 4 pts.)

(1) Falling land values. (2) New inventions, increased population and increased productive capacity. (3) The willingness of labor and capital to accept smaller returns.

13. When productive activity is resumed, what is the effect on land values? (281; also see supplement; 4 pts.)

With renewed activity, land values rise; another period of land speculation sets in and a new depression is on the way.

14. Is the problem of depressions and recessions essentially different from the general problem of poverty? (282; 4 pts.)

Depressions and recessions are merely intensifications of the general tendency for poverty to arise with material progress.

Proposed Remedies

15. Name six measures frequently proposed for the alleviation of poverty. (300; 3 pts.)

Government economy; education; labor unions; cooperation; governmental direction; land distribution.

16. What effect would economy in government and reduced taxes have upon the general level of wages? (300-303; 4 pts.)

Wages would temporarily rise, as labor could keep the wages it now pays in taxes. This would mean increased demand and increased production. Rent would rise and eventually swallow the whole gain.

17. Can skill, industry or thrift raise the general level of wages? Explain. (303-310; 4 pts.)

No, they cannot. They may help in individual cases, as when a person works harder, but insofar as these qualities become widespread, they increase production; this in turn increases rent and reduces the general level of wages. (Example: At one time reading and writing were special skills and paid higher wages than ordinary workmen received. As these skills have become more universal, they do not command a higher wage than the general level. A modern example: computer skills).

18. When a labor union raises wages in a specific industry, what is the effect on the general level of wages? (313; 4 pts.)

An increase in wages in any one industry does not affect the margin of production which determines the general level of wages.

19. Can the general level of wages be increased by a complete combination of all working people? (313-316; 4 pts.)

Theoretically yes, but it would be practically impossible. Note too that strikes involve destructive methods; they are endurance struggles in which labor starves, capital wastes and landowners can wait.

20. What is George's objection to governmental regulation of the economy as a remedy for poverty? (319-321; 4 pts.)

George points out that although governmental regulation may temporarily alleviate poverty, it does not and cannot solve the problem of poverty. It tends to restrict production; requires costly bureaucracy and encourages evasion of regulations. Note how accurate George was in his anticipation of the effects of an income tax (p. 320). (When George refers to "the ideal of socialism" he means the ideal of a harmonious and cooperative society, which can only be attained through freedom and natural growth and not through an economy planned by government).

21. Have current governmental programs to eliminate poverty been successful? (4 pts.)

No.

22. Can a more general distribution of land raise the general level of wages? (321-327; 4 pts.)

No, it would merely increase the number of landowners.

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

SUPPLEMENT — LESSON 6

1. Theories of the Business Cycle

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

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

When people are hit by inflation, their incomes do not meet rising prices. They are certainly not helped in this problem by higher taxes and higher interest rates. Keynesian theories, after years of application, were revealed to be inadequate with the development of "stagflation" — a condition of inflation accompanied by stagnant economic conditions. (See Part 3 below.)

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

This theory does not take sufficient account of the real distribution of wealth. Unless labor and capital can reap an adequate return, the increase in money supply will not help them, as the same proportion will go to unearned income as now — probably even an increasing proportion — with the same recessionary results. This has been borne out by unsatisfactory results in carrying out monetarist policies.

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

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

2. How Does the Business Cycle Work Today?

Labor and capital must have land in order to produce. What do they do when land values advance? They cease production. What does this mean in real life? Labor and capital decline to buy or rent land at the high asking prices. Some will rent or buy less land, and use it more intensively. Some will sleep on the street, or sell

DEPRESSIONS AND LAND VALUES

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

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

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

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

1871/73: Chicago fire and post-war boom. Population 187,000. Land values increased to $575 million. Third major depression.

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

1909: After many industrial failures and great unemployment, land values shrank to half what they were in 1890, though the population of Chicago was twice as great. Business improved and unemployment decreased.

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

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

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

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

from the sidewalk. Some will retreat to little patches of marginal land. Some will buy as much land as ever, but thus use up funds they otherwise would have used to improve it, becoming withholders themselves. Some will pass counterproductive rent-control laws. The economy-wide result will be less production, more unemployment.

Modern-day economists need to ask this question: *How do investors react to a set of incentives where expected changes in land value are made part of the overall return on investment — and land price part of the investment on which return is figured?*

This has several results:

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

— Rising land value becomes part of the incentive to build, leading to a glut of luxury housing and a shortage of moderately-priced housing.

— Land value becomes collateral. Its wild swings destabilize credit and money.

— A lot of land is unused, (or run down in its present use), as the holder waits for a possible higher use.

3. Land Speculation and Inflation

As with depressions, there are many different theories of the basic cause of inflation. But since today's business cycle seems to involve a constant tension between periods of inflation and periods of unemployment/recession, the two phenomena clearly are linked.

George identifies land rent as an income for which no production is needed; it is, in effect, a tax on production, the burden of which increases as production increases, due to rising demand for the same supply of land. The tendency of this process is, as we have seen, to eventually raise land rents beyond the ability of labor and capital to pay them — and depression is the result.

Is there any way that this process can be forestalled? Yes: the money supply could be increased. Remember, what landowners gain, in a growing economy, the producers of wealth (laborers and capitalists) lose; how, then, can production continue to increase? The effect can be blunted an increased the money supply. Real wages might be in the process of declining, but people would be getting a greater number of dollars in their paychecks — and they will try to spend them while they can. Thus, an increase in the money supply can create a surge in demand, keeping a period of economic growth alive — at least until the next election. Eventually, increased rents will consume the value of the extra money. Then, one of three things must happen: either the money supply must be increased further, risking runaway inflation — or some way must be found to increase worker productivity — or there must be a recession.

After the Great Depression of the 30s, nations began to use Keynesian fine-tuning of government spending and interest rate levels to blunt the impact of the boom-bust cycle. Since then, "capitalist" economies have teeter-tottered between periods of inflation and unemployment. Employment surged until inflation started to heat up, then monetary brakes were applied, inflation slowed down, and unemployment started to rise. It seemed possible to carefully steer a nation's economy between the two extremes.

Then, beginning in the 1970s, the phenomenon of "stagflation" — a period of simultaneous high inflation and unemployment — began to rear its ugly head. The power of governments to contain these bad economic effects seemed to have diminished, and we were forced to accept higher residual levels of unemployment.

Today, economists define a "full employment" point which is the highest level of employment that can be achieved without an unacceptably high level of inflation (the point is usually reached at an unemployment level of four to six per cent). Why would this be so?

Economists recognize two main kinds of inflation. ***Demand-pull*** inflation occurs in a growing economy in which increased demand for goods and services leads producers to raise prices to cover the increased costs of meeting the quickly-growing demand. ***Cost-push*** inflation occurs when a "supply shock" — a rise in the cost of some vital material or resource — raises the cost of production, and hence the market prices, of goods whether demand is increasing of not. It's easy to see that a combination of the two could result in stagflation.

That is exactly what Henry George is describing, in his theory of booms and busts. In a growing economy, land rents increase faster than overall growth. This creates an incentive for more land speculation, further increasing land rents and prices. Higher rents cut tinto wages and power production: a "supply shock" which grows more severe as the economy increases its output!

George's reasoning, combined with a modern macroeconomic analysis of inflation, confirms that inflation and unemployment/recession are not in opposition — they are different sides of the same coin. Land speculation does two things to create inflationary pressures: 1) It increases the volatility of the economy, creating more severe swings and a sharper demand-pull climate when things are moving upward. 2) It creates a growing cost-push effect by creating a general increase in the cost of land, exacerbated by unproductive land-hoarding. Thus we are led to suspect that if we could rid our economy of land speculation, we could erase the tendency for economic growth to lead to high inflation. We are also led to suspect that unless land speculation is removed from the economy, full employment can only be achieved at the risk of high inflation.

LESSON 7 — THE REMEDY; ITS JUSTICE

HGI
Fundamental Economics

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

1. What is the remedy proposed by Henry George for the abolition of poverty? (328; 4 pts.)

"We must make land common property."

2. a) What is "common property" in land? (3 pts.)

a) Equal rights of all to land.

b) How can this be achieved without denying individual rights? (See supplement; 3 pts.)

b) By community collection of the rent of land.

3. a) What are the tests to which Henry George proposes to put his remedy? (329; 4 pts.)

a) It must be just; it must be practicable; it must accord with social development.

b) Which test does he put first? Why? (333; 4 pts.)

b) The test of justice. "Is it right?" must be asked before "Will it work?"

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

Yes.

5. Can human beings live without land? (338; 4 pts.)

No, it is the storehouse from which human needs must be supplied.

6. Is there any justification for the absolute ownership of land by some to the exclusion of others? (339-340; 4 pts.)

No. An equal right to life implies an equal right to the use of land, which is necessary to life.

7. What constitutes the rightful basis of property? (334; 4 pts.)

The right to the fruits of one's own exertion, to enjoy, to use, to exchange or to give.

8. Is private property in wealth (the things produced by labor) justified by this principle? (334; 4 pts.)

Yes, a person can claim a just and clear title to that part of wealth which is due to his or her own exertions.

9. Is absolute private property in land in accordance with the rightful basis of property? (336-337; 4 pts.)

No, land is not the product of labor.

10. Indicate which of the following would be morally justified as an exchange with the products of a person's labor: (2 pts. ***each)***

a) Products of another person's labor
b) Stolen goods
c) Slaves
d) Land

a) Yes
b) No
c) No
d) No

11. How does the term "real estate" lead to confusion in determining the rightful basis of property? (337; 4 pts.)

By failing to distinguish between a building (wealth) which may be rightfully owned by an individual, and the lot on which it stands (land) which is not rightfully private property.

12. a) What is the origin of land titles? (342; 3 pts.)

a) Conquest, force and fraud.

b) Give one or more examples. (3 pts.)

b) The settlement of North and South America was accompanied by the cheating and massacring of the native inhabitants and by wars of the European powers with one another for the possession of the land.

13. Does priority of occupation give a person an exclusive and perpetual moral right to own land? (344; 4 pts.)

No. A first settler to a new country may settle where she pleases and take so much of the common property as she can use, but when other settlers arrive, her right is bounded by their rights.

14. In what way does absolute private property in land compare with chattel slavery? (347; 4 pts.)

Owning the land on which another person must live gives as much power to the owner over that person as owning him bodily.

The Rent of Land

15. If land is justly common property, how can a person retain undisturbed possession and use of land and yet satisfy the equal rights of all? (344; 4 pts.)

By paying its rent to the community.

16. How does payment of rent to the community satisfy fully the equal rights of all? (343-344; 4 pts.)

Rent is determined by the margin of production. It measures exactly the difference between the advantages of a particular piece of land and land which may be had freely by any member of the community.

17. Does rent arise from anything the landowner does as landowner? (365; 4 pts.)

No. A landowner who improves land does so as laborer and capitalist. The term landowner implies merely owning land and nothing else.

18. To whom does rent justly belong? Why? (366; 4 pts.)

To the community, because rent represents a value created by the community.

19. How would private ownership of improvements and personal property (wealth) be affected by community collection of rent? (367; 4 pts.)

Everyone, including the present landowners, would retain ownership of improvements and personal property.

20. What is the difference between community collection of rent and state ownership of land? (3pts.)

Community collection of rent enables the private possession and use of land to continue as now. State ownership of land implies state control of the use of land.

21. Compare George's proposal with land distribution schemes currently advocated for developing countries. (See supplement; 4 pts.)

George's proposal enables everyone to decide whether to be a landholder and how much land to hold, provided one pays its full rental value to the community. Most currently proposed land reforms aim at land redistribution and simply substitute many owners for a few owners. Land is often subdivided on an inefficient basis — and the private collection of rent still goes on.

22. Compare George's proposal with customary "left-wing", "right-wing" and "middle of the road" proposals. (See supplement; 5 pts.)

"Left-wingers" generally aim for more of the product to be in public hands. "Right-wingers" aim for more of the product in private hands. "Middle-of-the-roaders" aim for a "balanced system" between private and public ownership. None of them makes sufficient distinction between private and public ownership. None of them makes sufficient distinction between different kinds of income. George's proposal makes a distinction between the unearned income of rent and the earned income of wages and interest. Rent to the community, wages and interest to the individuals producing them.

SUPPLEMENT — LESSON 7

I. Common Property in Land

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

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

> ***Leviticus XXV:*** "The land shall not be sold forever; for the land is Mine; for ye are strangers and sojourners with Me."
>
> ***John Locke:*** "God hath given the world to men in common... Yet every man has a property in his own person. The labor of his body and the work of his hands are properly his." *(Civil Government)*
>
> ***William Blackstone:*** "The earth, therefore, and all things therein, are the general property of all mankind... from the immediate gift of the Creator." *(Commentaries on the Laws of England)*
>
> ***Thomas Jefferson:*** "The earth belongs in usufruct to the living... The earth is given as a common stock for men to labor and live on." *(Letters to James Madison)*
>
> ***Abraham Lincoln:*** "The land, the earth God gave to man for his home, sustenance and support should never be the possession of any man, corporation, society or unfriendly government, any more than the air or water, if as much. An individual, or company, or enterprise requiring land should hold no more than is required for their home and sustenance." *(Lincoln and the Men of His Time* by Robert H. Browne)

II. Land Distribution

In the United States, approximately 3% of the population own or control 97% of the privately owned land. The largest landholding entities are oil and timber companies, holding many millions of acres. Nevertheless, the US has a large number of individual landholders; some two-thirds of all American families have title to some land. (Of course, many who have long-term mortgages actually own only a small portion of their land's value.)

In "underdeveloped" countries, especially in Africa and Latin America, land ownership is often extraordinarily concentrated. In these societies the land problem is not masked and diffused as it is in wealthier nations. A small group controls nearly all the land in a nation, and the need for land reform is keenly felt.

This reform usually consists of breaking up large estates, with compensation to landlords, and making small holdings available to tenants on supposedly favorable terms.

Thus several small owners — and private collectors of rent — are substituted for a few large owners. The rights of all are not established. Besides the injustice of paying compensation to landowners, this measure does not take into account the changes in society, such as fluctuating populations, changes from generation to generation or the tendency of rural workers to move into urban areas. In many cases, the tendency to monopolization asserts itself and smaller holdings are taken over and absorbed into large estates.

If, on the other hand, a popular revolution — whose original goal may have been land reform — succeeds in installing a socialist regime, the result will be the seizing of nearly all the land and capital in the nation. The rights of wealth producers are not upheld when their capital goods are seized and held as government property. Henry George's brand of land reform, on the other hand, establishes equal land rights for all. It gives people the freedom to take as much or as little land as they can productively use — provided the obligation to society is paid. Thus, it enables the economy to progress under free conditions.

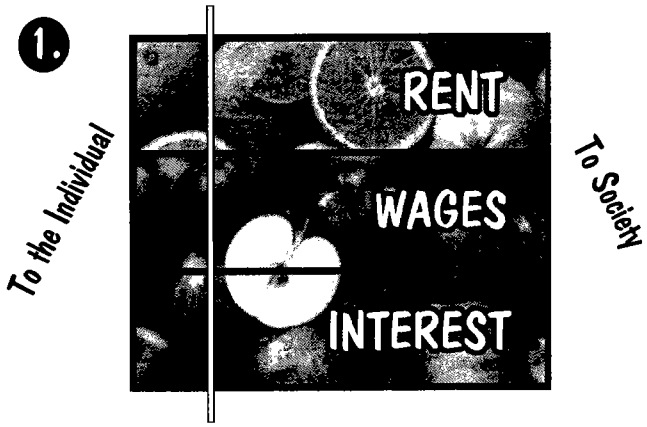
Common vs. Government Property?

Some hold that a distinction should be drawn between ***Common property*** — that which all have an equal right to use and enjoy — and ***Government property*** — that which belongs to the state and is subject to the direction of the government. If we believe, however, as Henry George did, that the purpose of government is to secure equal rights of all people, then there can be no meaningful distinction between common and government property. The government's role is to administer the common property of the people — who may decide, through the political process, to hold certain areas off the market for public use.

The only non-governmental common property is the unclaimed frontier. No individual, corporation or government can legitimately claim sovereign control over land except in its just role of securing the equal rights of all people.

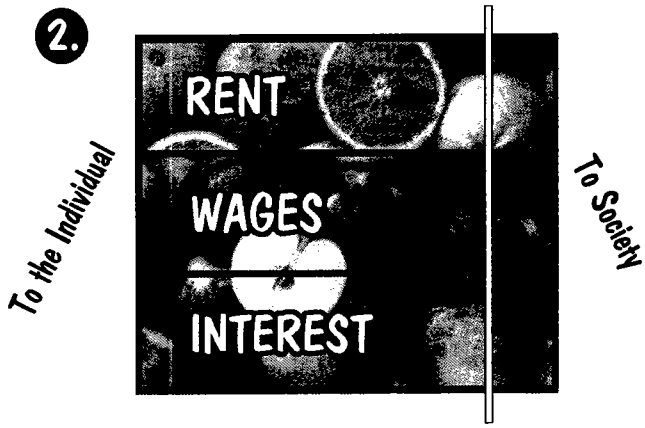
III. How Do We Divide the Fruits of Labor?

1.



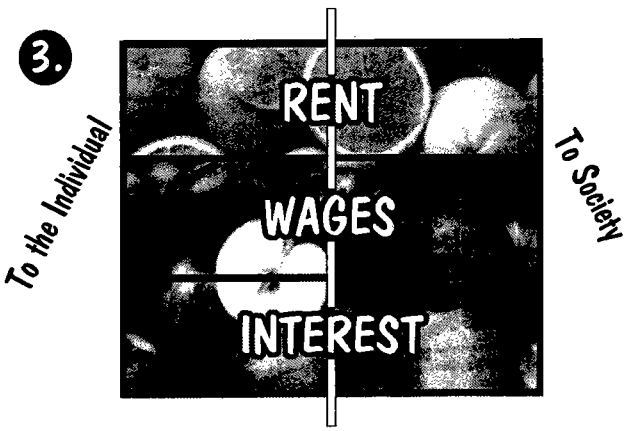
"Left-wing" proposals call for society to achieve **justice** by redistributing most of the wealth. No distinction is made between the sources of income (land, labor or capital), and individuals control only a small portion of the wealth. In most cases this entails a large measure of social control,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

2.



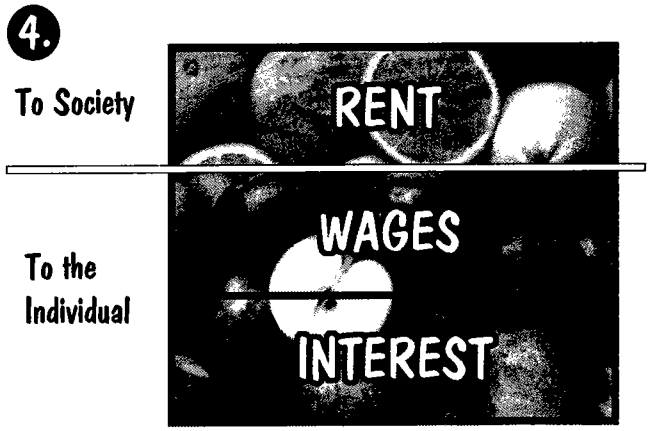
"Right-wing" proposals hold that **efficiency** requires more wealth to remain in private hands (also making no distinction between rent, wages and interest), and that society, or government, should only get the minimum it needs for necessary services, e.g., the role of "traffic cop." This implies leaving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

3.



"Middle-of-the-road" proposals seek a "balanced system" in the distribution of wealth and power between individuals and society — but make insufficient distinctions between earned and unearned incomes, and do not carefully define the proper spheres of society and the individual. The result is a hodgepodge in which **efficiency** and **justice** always appear to be at odds.

4.



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

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

LESSON 8 — APPLICATION OF THE REMEDY

HGI
Fundamental Economics

Reading assignment: Book VIII.

Ownership and Use of Land

1. What security does a person require to warrant building upon or cultivating land? (398; 5 pts.)

Security of possession of the product of one's labor.

2. Is absolute private ownership of land necessary to encourage the erection of buildings and the cultivation of land? (399-400; 4 pts.)

It is not. The use of leased land for building and agriculture prevails everywhere to a large extent.

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

The individual owner is permitted to prevent others from using what he cannot or will not use himself.

4. If land were treated as common property when would it be used? (401; 4 pts.)

As soon as there was a need for it.

5. In working out a method for treating land as common property what right must be safeguarded? (398-403; 4 pts.)

The private right to improvements.

6. What objection is there to public purchase of land? (405; 4 pts.)

It would be unjust for the community to have to purchase what rightfully belongs to a community in the first place.

7. Is it necessary to confiscate land? (404-405; 4 pts.)

No. It is merely necessary to confiscate rent. ("Confiscate" comes from the Latin: "con", together, and "fiscus", purse; in other words the public treasury. In its original meaning, "to confiscate" simply meant to take into the public treasury.)

8. What is the practical method proposed by George for treating land as common property? (406; 4 pts.)

To appropriate rent by taxation.

9. How would land titles be affected by this proposal? (405; 4 pts.)

They would remain undisturbed.

10. What machinery already exists for the public collection of rent? (405; 4 pts.)

Taxation. We already take some rent through the property tax. We need merely take all (or most) of it. George suggests that landowners might be left a small percentage of the rent. See supplement.

11. What does George's proposal call for with respect to other taxes? (406; 4 pts.)

To abolish them. Appropriation of rent would thus be substituted for all taxes now imposed on labor and capital.

12. What are the standards, or canons, to which taxation should conform? (408; 5 pts.)

Taxation should: 1) bear as lightly as possible upon production; 2) be easily and cheaply collected and fall as directly as possible upon the ultimate payers; 3) be certain; 4) bear equally so as to give no individual an advantage.

13. Name some types of taxes which fall upon production. (4 pts.)

Taxes on sales, manufacturing, commerce, capital, improvements. Illustrations of the above: sales tax, federal cigarette tax, federal transportation tax, property tax levied on improvements.

14. How do such taxes affect production? (410; 4 pts.)

The increased cost of production raises prices, forcing consumers to buy less. This lessens production.

15. What effect would the public collection of rent have upon production? (413-414; 4 pts.)

It would not be a burden upon production. It would stimulate the maximum use of salable land, on which greater production could be obtained. Full public collection of rent would increase overall production by stimulating the use of valuable land, allowing labor and capital to become more productive.

16. Can a tax on land values be easily and cheaply collected? (414; 4 pts.)

Yes. Land cannot be hidden. Its value can be ascertained readily. The machinery used to collect part of the rent could be used to collect more without any added expense.

17. How does the taxation of commodities affect their price? (415; 5 pts.)

The taxation of labor products increases their price by increasing the cost of production and lessening supply. (See p. 415 for the practice of "pyramiding" the tax.)

18. Does a tax on rent enable the owner to pass it on to the user of land in the form of a higher rent? (416; also see supplement; 6 pts.)

No. Since land is not produced by labor, taxes upon rent cannot lessen supply and thus raise rents. The owner cannot collect more rent, because rent is determined by the margin of production. Thus an effort by the landowner to shift the tax to the tenant by raising rent would make the rent higher than the land was worth, and the tenant would move. (This principle does not apply to taxes on buildings, which may be shifted, as is generally the case with taxes on labor products.)

19. Does a tax on land values add to the price of commodities? (415; 5 pts.)

No. It does not increase the rent of land; it does not reduce the supply of land; it does not reduce the supply of commodities; therefore it cannot increase the price of commodities. The price of commodities is set by competition and tends to the same level regardless of the rent of the site where they are sold.

20. What tax can be collected with the greatest certainty? (415-418; 4 pts.)

The tax on land values. Land cannot be moved or concealed, and its value can be determined easily.

21. Which conforms more closely with justice: Taxing wages or taxing rent? (420-421; 4 pts.)

Taxing rent. A tax on wages takes the rightful wealth of the laborer, the fruits of individual exertion. Rent is not produced by the individual. It is produced by society and therefore justly belongs to society.

22. Can we separate the value of land from the value of improvements? (425; 5 pts.)

Yes. Assessors habitually estimate these two values separately. If buildings are destroyed, land value remains. And, land values and building values often change in different directions, such as when a dilapidated building loses value while a desirable site appreciates.

23. If a tax on land values is the best method of raising revenue, what is required for its public acceptance? (429; 5 pts.)

That the significance of land value taxation be widely understood. When there are sufficient numbers of adherents, land value taxation will become a public issue. Politicians follow public opinion.

I. How Public Rent Collection Can Be Applied

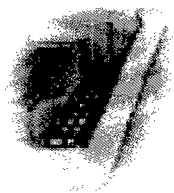
Henry George proposes the public collection of the rent of land, and the abolition of all other taxation. (This has been called the "Single Tax.") We already take some rent in taxation and we only have to make some changes in our modes of taxation to take it all.

Example: Assume a present real estate tax of 3%, i.e., 3% on land and 3% on buildings. The change could be effected by gradually increasing the tax rate on land and gradually decreasing it on buildings. The first year, the land value tax could be stepped up to 3 1/4% and the building tax down to 2-3/4; and so on each year until, after a 12-year period, the tax rate would be zero on buildings and 6% on land. The rate on land can be increased until the full rental value of land is collected. Other taxes should of course be abolished progressively until a Single Tax is achieved.

The chart at right shows the amount of property tax that would be paid for different properties under each system.

Here is a familiar example. Each of the sites shown has a value of $10,000 – but they are used very differently. The conventional property tax system levies a tax of 3% of the total value of the real estate – land and buildings – on each.

1.



Land: $10,000
Building: 0
Tax: $300

2.



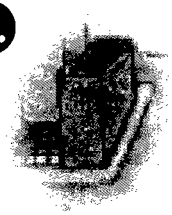
Land: $10,000
Building: $5,000
Tax:$450

3.



Land: $10,000
Building: $10,000
Tax: $600

4.



Land: $10,000
Building: $20,000
Tax: $900

Suppose, instead, a levy of 6% on the land value alone – with no taxes on improvements. What would the property tax bill be for each of these parcels? Each parcel has the same land value – so the tax would be the same: $600, regardless of the use to this the land is put. So we see that – compared with the current system – a tax on land value penalizes land speculation and rewards development!

II. The Tax Base

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

In the example used above, the value taxed is actually the selling price. If the full rent were collected, however, the selling price would tend to go down to zero. Therefore, a "land value tax" applied to the selling price of land would diminish in quantity as it progressively took more of the rent. The problem could be solved by directly assessing the annual rental value of the land and collecting that amount. However, assessments are not generally done in this way, and the changeover to a new method of assessment, while technically a simple process, could prove costly and slow to implement. One possibility is to start by increasing the tax on selling price, and then when the process is far advanced, switch to a direct tax on rent.

III. Related Questions

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

Would Rent be a sufficient source of public revenue? The total rent of land in the United States has never been calculated. (Irregular assessment practices do not give the true value of land. Rent is also disguised in numerous ways: for instance, it figures largely in returns to stocks and bonds. Also, because real estate is so often used as collateral for loans, a tremendous amount of rent is paid to banks as interest on mortgages.)

Some say that rent would be insufficient for total budgets, federal, state and local. But it is to be expected

that the Single Tax would on the one hand produce great economies in government, and on the other hand result in greatly increased production of wealth, with an increase in all returns — rent, wages and interest. And so (if it does fall short at present) within a short time rent should meet all legitimate needs of government. Of course, there is not universal agreement on how much government should cost! Some say rent might far exceed the needs of government. If so, the surplus could be used to wipe out the public debt and the balance be distributed as a dividend to all citizens.

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

Another proposal is for each level of government to impose the tax directly on respective types of land — municipalities on land within their areas; states on land within their areas outside the municipalities, such as farm land; and the federal government on such natural resources as oil fields, mines, forests and waterways. In practice, this method is also partially observed. Using this method, funds for international needs, such as peacekeeping functions or pollution control, could also be collected on lands that are outside of national jurisdictions.

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

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

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

IV. Broad-Based Taxation vs. the Single Tax

The favored public revenue strategy today is to make taxation as "broad-based" as possible — that is, to spread it out over as many different sources as are available. The reasons for this are political as well as theoretical. The more different tax sources there are, the more they can be played against each other to favor special interests. Local taxes can be played against federal subsidies, property taxes against sales taxes, taxes on consumption against taxes on production; an endless variety of deductions, abatements, tariffs or subsidies can be applied to reward particular constituents.

The theoretical reason is that taxation is considered to be a burden on all economic activity. When such things as wages, sales, interest, etc. are taxed, it makes goods and services cost more, thus lowering demand — and demand is what stimulates production.

So if all taxes are a burden on production, then they should be spread over as wide an area as possible to minimize the load on individual producers.

But there is one thing in the economy that can be taxed very heavily — to the full extent of its value, in fact — without decreasing the demand for goods and services. A tax on the rental value of land cannot diminish production, because land is not produced. A land value tax cannot increase the price of goods because those prices include the cost of land in any case, whether the rent is paid to a landowner or to the community.

The "broad-based" tax idea, failing to recognize the distinctive character of land as a factor of production, seeks to spread out the tax burden. In so doing, broad-based taxes — whether by accident or by design — provide all manner of opportunities for special interests to influence tax policies in their favor, at the expense of fairness and accountability. Land value taxation, on the other hand, is merely the collection by the community of the very fund that the community has created — a fund that is easy to assess and impossible to hide.

LESSON 9 — EFFECTS OF THE REMEDY

Reading assignment: Book IX.

HGI
Fundamental Economics

Effects Upon Production and Distribution

1. What would be the effect on production if:
   a) taxes on wages and interest were abolished? (3 pts.)
   b) land values were fully taxed? (433-436; 3 pts.)

a) With people no longer taxed for their energy, industry, skill and thrift, there would be greater incentive to produce.
b) Better natural opportunities would be open to labor, thus stimulating production.

2. How would the returns to labor and capital be affected by:
   a) the abolition of taxes on wages and interest? (3 pts.)
   b) the full taxation of land values? (436; 3 pts.)

a) Freed of taxation, they could keep their full wages and interest (all that they could produce at the margin of production).
b) Having access to better natural opportunities (i.e., a higher margin of production), their returns would be greater.

3. How would land value taxation affect aggregate rent? (436-437; 4 pts.)

Aggregate rent would increase. Superior lands, formerly unused, would be released for production. All such additional production would increase aggregate rent, as well as wages and interest.

4. How would an increase of aggregate rent benefit the community under land value taxation? (436; 3 pts.)

It would increase the common fund in which all would share.

5. If the full rental value of land were taken in taxation, what would happen to:
   a) the selling price of land? (3 pts.)
   b) land speculation? (436; 3 pts.)

a) It would fall drastically.
b) Land speculation would tend to disappear as there would be no profit in it.

6. If taxes were placed only on land values, would a given piece of land be taxed the same whether it were used or idle? (437-438; 3 pts.)

Yes. The tax would be based on the land's rental value. No matter how fully it were built upon or improved, the owner would pay no more for it than if it were idle. This would encourage the best use of land.

7. Under land value taxation, would it be necessary to pay large sums in advance, or to incur mortgages, in order to obtain land? (438; 3 pts.)

No. Land would be much easier to obtain than today. Selling price would fall to nominal levels. The main requirement in acquiring and keeping a piece of land would be to pay the rent tax.

8. What effect would the opening of better natural opportunities have on competition among laborers and on wages? (438; 4 pts.)

The demand by employers for labor would increase and at the same time laborers could more readily become their own employers. With less competition among laborers and increased production, wages would rise as the margin rose.

9. How would increased wages affect labor's productive power? (444-445; 4 pts.)

9. Labor would have the incentive to become more productive. The general level of wages is not based on the workers' productivity but on the best available opportunity for self-employment. If those opportunities improve, workers will be able to demand higher wages. In order to pay those higher wages and still make a profit, employers must make sure that worker productivity is high.

10. How would further advances in material progress (inventions, increase of population, etc.) affect all classes under land value taxation? (442-445; 3 pts.)

As labor and capital because more productive with material progress, there would be further increases in wages and interest. As rent increased, all would share in its benefits. Landowners themselves would benefit by living in a healthier society.

11. How do the values of agricultural land compare with the values of town and city land of equal area? (450; 4 pts.)

Agricultural land values are small compared to the values of town or city land of equal area.

12. If only land values were taxed, what would be the effect on: (3 pts. each)
    a) the working farmer who owns a farm?
    b) the tenant farmer?
    c) the prospective farmer seeking a farm to buy?
    d) the absentee farm owner? (447-450)

a) There would be less to pay in taxes, both direct and indirect.
b) As the margin rose, the return to tenant farmers would increase.
c) The prospective farmer would find much better land available at cheaper prices than today.
d) If all, or nearly all, rent were publicly collected, there would be no absentee landowners.

13. Under land value taxation, how would the homeowner fare: (3 pts. each)
    a) in the taxes on house and lot?
    b) in selling house and lot?
    c) in buying a house and a lot? (447-450)

a) Taxes would be only on the lot and not on the house.
b) The price of the lot would fall, but the price of the house would remain unaffected.
c) The cost would be less than today. Since land would only be a relatively small cost factor; the overall mortgage debt burden would be correspondingly less.

14. From what types of land would the largest public revenues be derived? (4 pts.)

From city lands, especially commercial sections; also from lands where oil and other valuable natural resources were found. Such lands are generally the most valuable.

15. With speculation in land removed, what would be the effect on the distribution of population? (451; 3 pts.)

People in sparsely settled areas could move closer to the centers of population; people crowded in cities could spread out more. Population could then be more evenly diffused.

16. How would a single tax on land values affect the complexity of government? (454-455; 3 pts.)

It would vastly simplify government. It would eliminate our vastly complicated tax agencies and cut down on tax legislation. (note: George here speaks of "the State as the sole owner of land." This does not mean land nationalization. Existing title and possession of land would remain unchanged. The state would only the "owner" in the sense that it would receive the rent in the name of the people as a whole.)

17. a) What are the chief economic reasons for the rise of "big government" today? (3 pts.)
    b) How could "big government" be reduced under land value taxation? (3 pts.)

a) Failure to solve the basic, systemic problems of poverty and depression has led to a demand for government intervention, which has given rise to the big government of today.
b) With the problems of poverty and depressions solved, the chief economic reason for big government would be eliminated. There would no longer be the large-scale need for welfare payments, unemployment insurance, etc., with all the attendant bureaucracy.

18. What would be the functions of government under land value taxation? (454-456; 3 pts.)

The collection of land value taxes and their use for the common benefit; the preservation of law and order; the administration of justice.

19. What does Henry George regard as a motive of human action even stronger than self interest? (458-463; 4 pts.)

The desire for approbation. The sympathetic desire of people which leads them to act for the sake of their fellow citizens, or for a noble cause.

20. If involuntary poverty were abolished, would people tend to idleness? (466; 3 pts.)

Desire would remain, urging people forward to new accomplishments, not only for material betterment, but for intellectual and moral achievements.

21. What is the greatest waste of society today? (469; 3 pts.)

The waste of mental power, caused by conditions that permit so few to develop their potentialities.

22. How would an environment which offered greater opportunities to all tend to change society? (470-471; 4 pts.)

The capacities of individuals would have far greater opportunities for development than today. The moral, intellectual, and cultural life of society would tend toward constant improvement.

SUPPLEMENT — LESSON 9

1. Land Value Taxation Around the World

Here is a brief account of various places in the world today where land value taxation has been partially applied and improvements are partially or fully exempt. Nowhere yet has the principle of the public collection of land rent, with abolition of all other taxes, been applied on a large scale. But partial applications indicate results commensurate with the degree of application.

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

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

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

Australia — All six states and a majority of the municipalities in the Commonwealth of Australia tax land values to a certain degree, and some exempt improvements in whole or in part. However, there are many other non-real-estate taxes. In New South Wales, for example, all local taxing units tax land values only. There is no state land value tax, but the state collects royalties on minerals. The City of Sydney is the largest city in the world to derive all its municipal revenue from land value taxation. Building has been encouraged, slums eliminated and the price of land stabilized.

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

South Africa — A majority of the municipalities in the Transvaal, Orange Free State and Natal tax land values more highly than improvements. Results are impressive in Johannesburg which has new building continually going on. Cape Town recently began to collect public revenue from land only, exempting improvements. But South Africa's new government must deal with massive inequities in land distribution, now that the apartheid regime has gone. Here, as in many other nations in Africa, land value taxation provides a viable alternative to ineffective redistribution schemes, and is gaining public recognition and support.

Russia — As the former Soviet states approach a newborn market economy, its people do not forget that all lands and natural resources have been the property of the state. Much is uncertain about Russia's future, but the understanding that land is common property is not lost on Russian citizens. In the cities of Novgorod, Russia and Lviv, Ukraine, city officials have embraced the concept of land value taxation and moved to implement it. The disposition of land ownership is vital to the shape of the emerging post-Soviet economy. In newly-independent Estonia, American land assessors have provided the means for an effective land value taxation system to be administered.

Canada — Various cities in western Canada tax land values at a higher rate than improvements. In British Columbia, 54 of the 104 municipalities exempt improvements 50%; 13 exempt them more than 50%. In New Westminster, 86% of the householders own their own property and land speculation has disappeared. Alberta requires its 7 cities to exempt improvements 40% from taxation. The province taxes land values to some extent, including a land-transfer tax called an "unearned increment tax". The province obtains considerable revenues from oil leases, rentals and royalties (a form of land rent, which has made possible a "Heritage Fund.") In Saskatchewan all but one of the cities and towns exempt improvement values 40%; Regina 70%. In rural municipalities land value taxation is the primary source of revenue. In Manitoba cities and towns exempt improvements one-third.

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

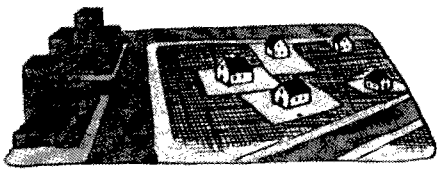
Two-Rate Property Tax Reform — Eighteen cities in Pennsylvania now apply what is termed the "graded tax plan" whereby land is taxed at a higher rate than improvements, and the two largest among them, Pittsburgh and Scranton, have both raised the land tax considerably in recent years. The state permits cities of the third class (all the remaining cities except Philadelphia), as well as boroughs, to tax land and improvements at different rates. As the benefits of the graded tax, namely, more new construction and lower housing costs, become more and more apparent, many other Pennsylvania municipalities are examining the graded tax plan. Recently, Allentown enacted a home-rule charter stipulating a freeze on all new taxes save those on land values.

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

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

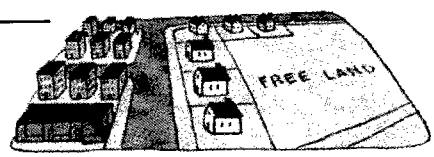
The Three Ardens, Delaware — In Arden, Ardentown, and Ardencroft, the land is leased to its users, and no taxes are collected on improvements. Local taxes are paid out of Arden's land rent fund, and the balance of the rent is used for public improvements. These towns are well-known as beautiful residential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

2. A Closer Look at the Law of Rent



Here is a model with five different grades of land. Workers are more productive on better land — they can each produce more units of wealth (because the best workers tend to win the competition for areas that offer the best opportunities). And, on the better grades of land, more workers can be employed on each "plot" (unit of area). But the cost of public services (infrastructure) is greater in proportion to the amount of production and the (potential) number of workers. Let's say that in this model there are four plots of each grade of land, and that one of each four has been held out of use.

4 plots of each grade of land	5 units per worker/day; 50 workers per plot	4 units per worker/day; 40 workers per plot	3 units per worker/day; 30 workers per plot	2 units per worker/day; 20 workers per plot	1 unit per worker/day; 10 workers per plot	
plot 1	50 x 5	40 x 4	30 x 3	20 x 2	10 x 1	
plot 2	50 x 5	40 x 4	30 x 3	20 x 2	10 x 1	
plot 3	50 x 5	40 x 4	30 x 3	20 x 2	10 x 1	
plot 4	0	0	0	0	0	TOTALS
# of workers	150	120	90	60	30	450
wealth output	750	480	270	120	30	1650
infrastructure cost	200	160	120	80	40	600



4 plots of each grade of land	5 units per worker/day; 50 workers per plot	4 units per worker/day; 40 workers per plot	3 units per worker/day; 30 workers per plot	2 units per worker/day; 20 workers per plot	1 unit per worker/day; 10 workers per plot	
plot 1	50 x 5	40 x 4	30 x 3	free	free	
plot 2	50 x 5	40 x 4	30 x 3	free	free	
plot 3	50 x 5	40 x 4	30 x 3	free	free	
plot 4	50 x 5	40 x 4	free	free	free	TOTALS
# of workers	200	160	90	-	-	450
wealth output	1000	640	270	-	-	1910
infrastructure cost	200	160	120	-	-	480

Now let's see what happens if we employ the same number of workers, under the same conditions, but with land speculation eliminated!

LESSON 10 — THE LAW OF HUMAN PROGRESS

HGI
Fundamental Economics

Reading assignment: Book X and Conclusion.

The Law of Progress

1. Are different levels of civilization due more to differences which inhere in individuals or in society? (489-505; 4 pts.)

To differences which inhere in society. All human beings are essentially alike. This is a conclusion which has been confirmed by modern anthropology. What makes societies, civilizations and nations different from one another is not the differences in individuals but the different traditions, beliefs, customs and laws which grow in every society.

2. What must the Law of Human Progress explain? (506; 4 pts.)

Why past civilizations arose and decayed. Which social adjustments tend to advance and which to retard civilization.

3. What are the incentives to progress? (506-507; 4 pts.)

The desire to gratify physical, mental and social wants.

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

That which is left after mental power is expended in non-progressive pursuits of maintenance and conflict.

5. To utilize this mental power fully, what is the first essential of progress? (508; 3 pts.)

Association. As people associate in communities, division of labor becomes possible, leading to greater productivity and the freeing of mental power for higher pursuits.

6. What is the second essential of progress? (508; 3 pts.)

Equality. A condition of equality, freedom and justice. In short, an observance of the equality of human rights will lessen the wasteful expenditure of mental power in conflict.

7. What is the Law of Human Progress? (508; 4 pts.)

Association in Equality. Association frees mental power for improvement; equality prevents dissipation of this power in fruitless struggles.

Causes of Decline

8. How does disassociation of peoples tend to check progress? (510-511; 4 pts.)

The prejudices and animosities that grow up between separated communities may become barriers to the exchange of goods and ideas (trade). These barriers may also lead to destructive warfare.

9. As society becomes complex, what conditions arise which may lead to inequalities? (516-517; 4 pts.)

The concentration of political power in one person or small groups. Specialization of functions which create privileged classes, such as the military, the judges, politicians, etc. Increasing value of land which leads to greater power and wealth for those who have monopolized it.

10. Are such inequalities a necessary result of social growth? (514; 4 pts.)

No. They can be prevented by making proper social adjustments as new conditions arise.

11. How does the inequitable distribution of wealth and power tend to check progress? (518-519; 4 pts.)

The "have-nots" are compelled to expend their mental power in merely maintaining existence, while the "haves" expend mental power in keeping up and intensifying the system of inequality.

12. Does the Law of Human Progress (Association in Equality) account for the rise and fall of civilizations? (508; 4 pts.)

Yes. This general law will explain all diversities, all advances, all halts and retrogressions. Progress goes on as society tends toward closer association and greater equality. Progress is halted by inequality and disassociation.

13. Does political equality alone assure the equitable distribution of wealth and power? (530; 4 pts.)

No. It does not prevent the tendency to inequality in the ownership of land, which leads to unequal distribution of wealth and power.

14. Cite some social conditions existing today which, if unchecked, may lead to a decline of civilization. (4 pts.)

Increasing crime and worsening slums in cities. Riots and civil disturbances, War and preparation for war. Increasing taxes and governmental interferences. Land speculation and the constantly rising price of land.

15. How would these conditions be affected by Henry George's remedy? (4 pts.)

The cause that is chiefly responsible for these symptoms - poverty and its attendant evils - having been solved, the gigantic size of these problems would start to diminish.

The Central Truth

16. How does George's reform accord with the Law of Human Progress? (545; 4 pts.)

It will open up greater opportunities for progress. It will make other desirable reforms easier. It is politically, socially and morally sound. It is consistent with true equality and justice. It will produce a condition of true economic freedom. The increase of the rent fund under George's reform will promote equality instead of inequality.

17. What is the meaning of Liberty? (546-547; 4 pts.)

"Liberty means justice and justice is the natural law." Liberty is the true source of progress. Liberty is a condition wherein the rights and freedoms of all are respected.

18. What does Henry George regard as a problem even higher and deeper than the social problem? (555 et seq.; 4 pts.)

"Behind the problems of social life lies the problem of individual life."

19. a) Summarize the important points of the course. (30 pts.)

19. A summary should include: Definitions of economic terms. The fact that poverty cannot be explained by any inability to produce sufficient wealth. The laws of distribution. Land monopoly and land speculation as the basic cause of poverty and depressions. Public collection of the rent of land through land value taxation and abolition of other taxes, as George's remedy. The law of human progress.

b) Add your own evaluation.

1. Review of the Main Points of the Course

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

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

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

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

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

This proposal is further justified by the fact that land values are produced by the growth and activities of the community as a whole, not by the efforts of landowners. The rent of land properly belongs to the community to defray communal expenses. Abolition of taxes on labor and the products of labor would enable producers to keep the full fruits of their toil. Adoption of this proposal (called the "single tax") would greatly encourage production; wages and interest would rise; land, freed of the burdens of monopoly and speculation, would be easier to acquire for productive purposes and for homes; "booms and busts" would be replaced by continuous growth; governments would be greatly simplified.

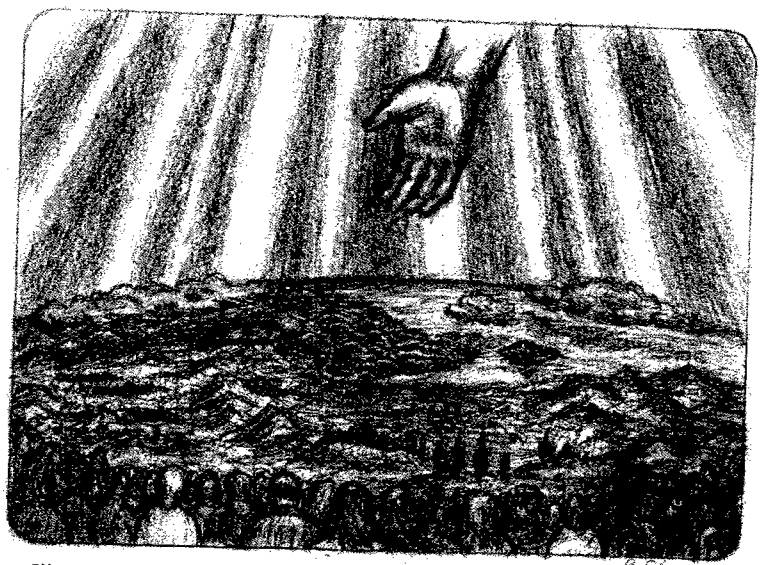


Illustration from the set of original illustrations for Progress and Poverty *by Robert Clancy, founder of the Henry George Institute.*

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

2. Answers to Typical Questions

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

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

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

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

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

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

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

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

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

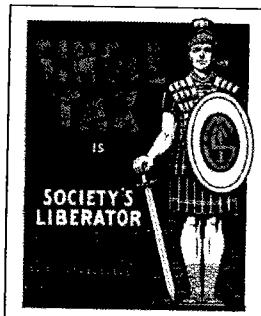
A. All incomes come from only two sources — land or labor. Land is not a thing of human production. People cannot live without access to land. In these two respects it is unique. No other "unearned income" compares with rent in importance. All other increases in value may be traced to a labor product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

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

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



"Seeing the Cat" has long been a slang term for achieving an understanding of Henry George's ideas. Louis F. Post, in his book The Prophet of San Francisco, *refers to a speech made by Judge James G. Maguire to New York's Anti-Poverty Society in the 1880s: "I was one day walking along Kearney Street in San Francisco when I noticed a crowd in front of a shop window... I took a glance myself, but I saw only a poor picture of an uninteresting landscape. As I was turning away my eye caught these words underneath the picture: 'Do you see the cat?' ...I spoke to the crowd. "Gentlemen, I do not see a cat in the picture; is there a cat there?" Someone in the crowd replied, "Naw, there ain't no cat there. Here's a crank who says he sees a cat in it, but none of the rest of us can." Then the crank spoke up. "I tell you," he said, "there is a cat there. The picture is all cat. What you fellows take for a landscape is nothing more than a cat's outlines. And you needn't call a man a crank either because he can see more with his eyes than you can with yours." The cat — like the role of land in the economy — is utterly unmistakeable, once it comes clear. Do you see the cat?*



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