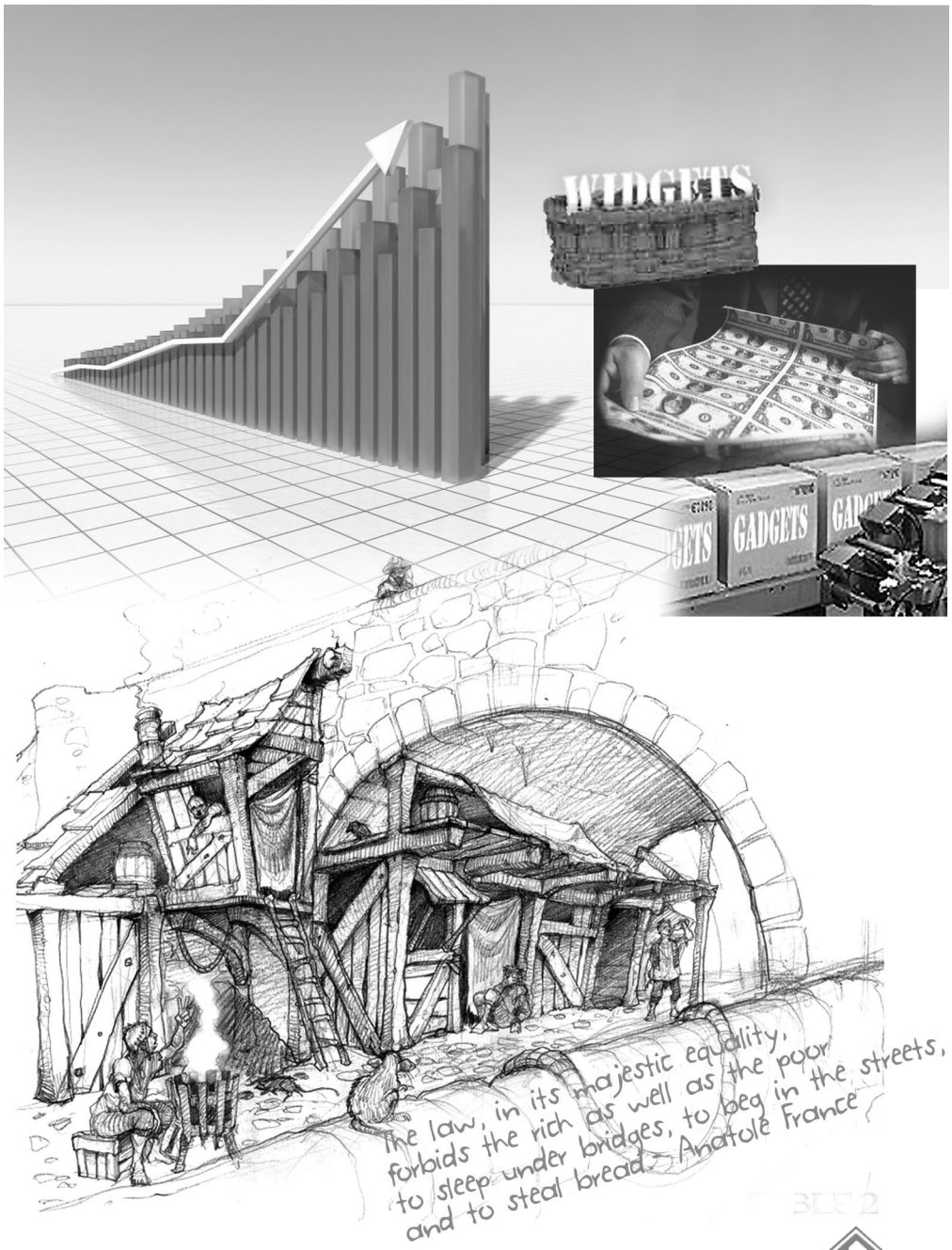
Understanding Economics



A course in Fundamental Economics
based on *Progress and Poverty*
by Henry George

Henry George Institute

A Note to Students and Teachers

You are about to embark on a refreshingly unusual educational experience: a course in the fundamental principles of economics that is designed to be understandable to any literate person — yet contains insights that would benefit professional economists.

Understanding Economics has a long history. Courses in fundamental economics based on George's *Progress and Poverty* have been offered since 1932 at the Henry George Schools of Social Science. Hundreds of thousands of students from all walks of life have taken versions of this course and found them invaluable. Its newest incarnation is the online correspondence course, offered on the Web (www.henrygeorge.org) by the Henry George Institute, whose main text is a new modernization/abridgement of George's classic book by Bob Drake. This study guide offers all the supplemental readings for that course in printed form.

The objective of the course is to provide an introduction to the principles of political economy as elaborated by Henry George in his classic *Progress and Poverty*. The course not only covers George's fundamental principles but applies them to current problems and issues in contemporary economics. Many supplements are designed to be easily duplicated as a one- or two-page handout. Some of the supplemental readings are in-depth explorations that can be left out of shorter or more basic courses. There is, therefore, some repetition of key concepts (but they bear repeating). The overall goal is to be as useful as possible to a wide range of educators, in a compact, convenient format.

In the section covering "Henry George's Remedy" you will find a selection of key images from the long history of the Single Tax Movement — including the true origin of the popular board game *Monopoly*.

We hope you will find this course accessible and enjoyable, and that it achieves its goal of changing the way you think and feel about the vital, challenging study of how we make a living.

— Lindy Davies, Henry George Institute

Acknowledgements

This course is the result of decades of collaboration. Courses based on Henry George's works have been offered for many decades, and to some degree, aspects of the writing that appears therein have a traditional character. For example, sentences and paragraphs that appear herein can be found verbatim, or nearly so, in the Henry George Institute curricula written by Robert Clancy in the early 1970s. The current version, however, has been produced by HGI Program Director Lindy Davies, and all the unattributed writings it contains are his. Sections contributed by other writers are designated by introductory notes, or by footnotes. I want to thank a few for their extraordinary contributions to the present effort. Prof. Mason Gaffney of the University of California at Riverside contributed material from his university course on *Progress and Poverty*. Important pedagogical contributions came from Mike Curtis, former Director of the Henry George Schools in Philadelphia and New York. Original drawings used in this work were done by Robert Clancy, who also played a key role in the design of the classic series of political economy courses used by the Henry George Schools. The late Bob Drake and the Robert Schalkenbach Foundation produced the new modernized abridgement of Henry George's classic work as the text to which this fifth edition of *Understanding Economics* refers.

— L. D.

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Henry George Institute (HGI)
121 East 30th Street
New York, NY 10016

teacher@henrygeorge.org

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This fifth edition of the *Understanding Economics* workbook is dedicated, with gratitude, to Mike Curtis and George Collins, Georgist educators *par excellence*.

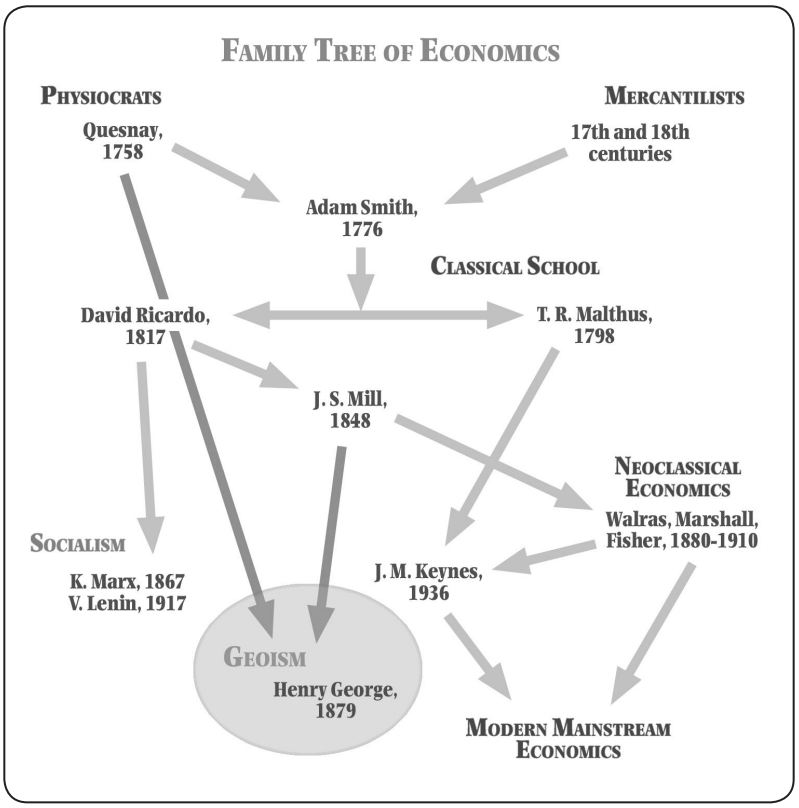
Why Henry George? Why this Course?

Inside the back cover of the 17th edition of *Economics* by Samuelson & Nordhaus there is a "Family Tree of Economics" that graphically summarizes the major trends in the discipline's modern history. It presents the most famous exponents of the main schools of economic thought: Mercantilism, the Physiocrats, the Classical School and Neoclassical Economics — leading to the two modern "endpoints" of Modern Mainstream Economics and Socialism. The book's chart depicts the "value-free" science of economics in a rather partisan way: it places Modern Mainstream Economics center stage as the fulfillment of its precursors — and leaves Socialism on the far left, trailing off into irrelevance.

My experience with Samuelson & Nordhaus was unusual. I purchased it, not routinely as a college text, but in a self-study effort to provide context for a compelling set of economic ideas that I had encountered in the books of Henry George, and teachers/writers influenced by him. They had convinced me that Henry George's political economy offered a crucial remedy for the economic ills of modern society — and so, the first thing I saw when I looked at this chart was the gaping hole where George and Georgist theory ought to be.

Over the years, courses like this one have been offered in an attempt to correct that omission — to supply the missing piece of the economic puzzle. Many argue that it was not left out by accident. Henry George observed that society's technological advances — thought to provide benefits for all — really made it seem "as though an immense wedge were being forced, not underneath society, but through society. Those who are above the point of separation are elevated, but those who are below are crushed down."[1] George claimed to have identified the fundamental force that was driving that wedge — and how the problem could be fixed. If he was right, it's little wonder that his views were suppressed. After all, the most prestigious universities were endowed by the major recipients of the privileges that George sought to expose. The academic reaction to Henry George's ideas confirmed Lord Macauley's famous observation that "were great pecuniary interests at stake, acknowledgment of the law of gravitation even now would be met with opposition."

The monied interests of the late 19th century found themselves in a pickle, because George's ideas were catching on in a big way. *Progress and Poverty* was a runaway best seller; it had made its author a household name. Furthermore, George was a self-taught economist who insisted that it was perfectly possible for — and therefore incumbent upon — any thinking person to understand basic economic principles. For George, political economy was, unlike other sciences, universally relevant and important, because no one can avoid the basic questions of "getting a living." He also believed that its basic principles are readily accessible:



For the study of political economy you need no special knowledge, no extensive library, no costly laboratory. You do not even need text-books nor teachers, if you will but think for yourselves. All that you need is care in reducing complex phenomena to their elements, in distinguishing the essential from the accidental, and in applying the simple laws of human action with which you are familiar. [2]

Our version of the "family tree" image shows where we think Henry George's economic theory fits in. Of course, we must support this assertion. We will follow George's advice to "take nobody's opinion for granted; try all things: hold fast that which is good."[3] Let's briefly survey the main themes of the economic schools and their major exponents shown here.

The chart doesn't mention Feudalism, but it was the set of political-economic assumptions that held sway at the beginning of the modern era. Feudalism was more a general set of practices than a specific doctrine. It amounted to a strictly hierarchical system of rights and duties, from the king on down to the serf. At best, it led to a steady state, in which producers provided goods and food to lords, who maintained government and defense. Stability was valued much more than growth and change; conformism was reinforced by the Church.

The ideas that came to be known as Mercantilism arose in the 1600s, as trade with newly-discovered colonial possessions was becoming important to the powerful nations of Europe. Each sought means to strengthen its central government, to compete militarily and, especially, economically, with its seagoing rivals. International trade was carried out by franchises granted by the sovereign; in this way the monarchy could take the profits of trade in the form of gold, with which it could shore up its power. The belief arose that the essential character of a nation is to be in competition with other nations. Therefore, it was thought that domestic consumption merely wasted goods that could be sold at a profit to other nations. Riches, for mercantilists, came in the form of gold, not goods.

A modern observer might note that this way of looking at things explicitly equated the interests of a nation with those of its nobility. Democracy was not yet a consideration. The feudal notions of the dependency of subjects, and the responsibility of liegelords, still held sway, even though the parochial economic arrangements of feudalism were superseded in a broader, international frame of action.

If mercantilism embraced trade as the main engine of progress, the economic theories of the Physiocrats offered a counterbalance, identifying the source of wealth in agriculture. That is how people's most basic survival needs are met — so, they reasoned, agricultural surplus is the key to prosperity. Quesnay and Turgot, who both served as economic advisors to the king of France, identified three basic social classes: farmers, artisans and landowners. They saw the middle class of artisans and merchants as "sterile," handling and transporting wealth but not really producing it. Because overall prosperity arose from productive *use* of the land, the Physiocrats held that land *ownership* should be the only source of public revenue. Their recommendations faced bitter opposition from landowning interests, and were never fully put into practice. However, the primary importance that the Physiocrats placed on free small farmers was a great influence on democracy advocates such as Thomas Jefferson.

The Wealth of Nations

The rise of the industrial revolution brought rapid, dislocating change in economic life. The processes of specialization, economies of scale, and economic interdependence became more important all the time. Adam Smith's *Wealth of Nations* offered a basic organizing principle that helped to explain this welter of entrepreneurial activity — and for this he became known as "the father of political economy." For Smith, free markets, competition and secure property rights would lead to prosperity. Each person's self-interest would lead him or her to make decisions that created the highest level of prosperity for all. These *laissez faire* (free enterprise) principles were incompatible with mercantilism, which Smith stridently opposed.

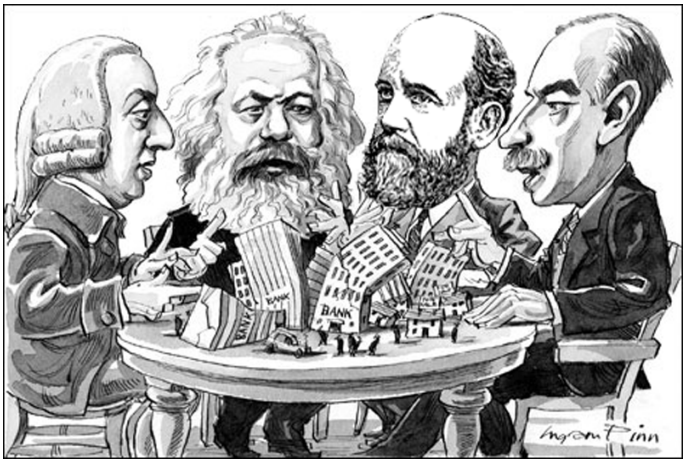
Although Adam Smith is commonly identified with a right-wing call for limited government, he did affirm the need for public goods and services, and for public regulation of monopolies and cartels. Indeed, Smith was the first to formulate the classic "Canons of Taxation," holding that taxation should place an equal burden on the payers, should be certain and predictable, should be inexpensive to collect and should hinder production as little as possible.

The popularity and influence of Adam Smith's work led to the establishment of political economy as a field of study in its own right, and not simply a branch of philosophy. A number of writers contributed works to this new field. They sought to address the basic mysteries posed by industrial growth: Why did poverty seem to deepen as wealth-creating power increased? What caused recurring economic slumps, or depressions?

One of the most controversial of the new Classical School was the English parson Thomas Malthus, whose *Essay on Population* influenced later work in many fields. Malthus identified the cause of chronic poverty in the tendency of human population to increase beyond the means of subsistence. If this tendency toward overpopulation is not held in check by actively reducing fertility, it will be checked by misery and death. Such ideas were popular among politicians who wanted to reduce or eliminate support for the poor — for, according to Malthus, providing poor with higher wages would simply enable them to breed more rapidly.

Malthus also weighed in, later in his career, on the issue of rent, about which he engaged in a long debate with his colleague and friendly antagonist, David Ricardo. Rent — the return to landownership — had been held by Smith and the physiocrats to be a sort of "free ride" — wealth that landowners enjoyed at the

expense of the rest of society. Malthus, on the other hand, justified private collection of rent as a source of productive investment — anticipating the view of the neoclassical economists who would follow at the end of the 19th century.



Ricardo explained the problem of poverty in terms of the natural laws governing how wealth is distributed among the factors that produce it: labor, capital and land. As population increases, people are forced outward to land that has lower productive potential. Because this free land is their last resort to employ themselves, wages will fall to the average amount that can be obtained there, at the "margin of production." This, Ricardo's Law of Rent, implied an "Iron Law of Wages" that government policy could do little to change. However, Ricardo argued that overall prosperity could be improved if, rather than exchanging goods locally, they were transported to places where they were worth more. This led Ricardo to articulate the principle of comparative advantage in international trade.

The Wrangle over Value

Political economy had long wrestled with the problem of value. What are things worth? Is something worth whatever one can get for it in exchange — or is there a just, or fair, price, beyond which the seller would get an exploitative profit? It's not hard to see how this could become a "fulcrum point" in economic theory. There was a common-sense assumption that things had value in proportion to the amount of human labor that went into making them. This idea was venerable in Western thought; it was held by Aristotle, and by Thomas Aquinas, among many others. But there was a clear problem with it: what about things that are valuable, yet are not produced by labor at all?

John Stuart Mill's *Principles of Political Economy* authoritatively summarized the state of economic science in the mid 19th century (as Samuelson's *Economics* did in the 20th). Mill's work explored the implications of classical political economy in greater subtlety than his predecessors had. Like Ricardo, Mill consistently espoused the labor theory of value, affirming that things have an intrinsic or "natural" value, around which their market prices will hover, according to changes in demand and supply. Also, Mill found no way to refute the "Iron Law of Wages." This led him to be sympathetic with various early forms of socialism, as a means to allow a wider enjoyment of the benefits of material prosperity.

Karl Marx took the labor theory of value to its logical conclusion. For him, the value of any thing amounts to the "labor time socially necessary" to create it. As labor-saving technology advances, less and less labor is needed to produce goods (or, in other words, labor becomes more productive). Marx coined the term "surplus value" for the difference between the market price of goods and their "labor value" — a difference which inexorably tends to increase. This led to a dynamic historical model of economic development: because of the tendency for surplus value to be a greater and greater portion of the price of goods, the lot of workers can only get worse and worse, and the "capitalistic" economy carries the inevitable seeds of its own revolutionary overthrow.

By postulating "labor time socially necessary" as the source of value, Karl Marx gave Marxist economics its theoretical starting point. But this did not remove the basic logical problem with the idea. The labor theory simply could not account for the value of a piece of bare land — something that was not produced by human labor.

Neoclassical Economics

The need was clear for a new formulation of value — and, meanwhile, for an economic framework that didn't support revolutionary attacks on the status quo. The emergence of Neoclassical Economics in the second half of the 19th century coincided with "the Gilded Age" — a time when "robber barons" amassed gigantic fortunes, while wages and working conditions for the masses sank ever lower.

The neoclassical solution to the conundrum of value employed the concept of "utility" — one's preference for a thing, as compared to other things. This led to the important concept of "marginalism" — generally defined as the overall effect of adding or subtracting one unit of something. This leads to the conception of economics as the study of choices — and thereby removes any moral or "normative" element from economic science. If, as marginal theory contended, all "inputs" to

production are simply chosen, or valued, according to their marginal utility, then it makes no difference how things were created, under what conditions, by human labor or not. Another important aspect of this "marginal revolution" in economics was that the focus on "inputs," measured in strictly quantifiable units. This invited analysis in mathematical terms, a possibility that 20th-century economists eagerly rushed in to explore.

Classical economics tended (more or less) toward an emphasis on *equity,* which could countenance state interference and regulation in the attempt to control the worst effects of that wedge that material progress drove through society. The neoclassical theorists emphasized *efficiency,* arguing that unregulated *laissez-faire* competition would bring the greatest good for the greatest number.

The problems of chronic poverty and boom/bust cycles remained unsolved. In the 1920s, the long-standing tendency of periodic economic declines was ratcheted up by new investment strategies, such as mortgage-backed securities. The economic boom of the "roaring twenties" created massive fortunes — and a massive slump ensued after the markets crashed.

John Maynard Keynes published his *General Theory of Employment, Interest and Money* in 1936 — and the policy responses he advocated had already been put to use by Franklin D. Roosevelt's administration in addressing the suffering wrought by the Great Depression. Keynes contended that an overall propensity to *save* — rather than *invest* in productive capital — reduced economic activity. Generally, this is because savers tend to want to retain the value of their assets for future use, at the lowest possible risk, whereas investors tend to tolerate higher risk in the hope of a greater return. An overall increase in risk-taking tends to encourage innovation and growth.

In Keynes's view, this was a structural part of a modern economy which led to periodic downturns, unless it is countered with public "pump-priming" — making more money available through deficit spending and lowered interest rates. Famously saying that "in the long run we are all dead," Keynes held that waiting for a depressed economy to right itself in a long-term equilibrium would cause too much suffering; governments have a responsibility to step in with sound management.

For at least three decades, "Keynesian" fine-tuning, along with other macroeconomic refinements, softened the impact of periodic economic slumps. Essentially, this involved using fiscal and monetary policies to manage a societal tradeoff between inflation and unemployment. Average living standards in Western nations steadily improved up until the 1970s. During that decade, Keynesian macroeconomics was stymied by the emergence of stagflation — simultaneously high rates of both inflation and unemployment. For many decades, an unemployment rate of 4-6% has been routinely defined as "full employment," lest inflation start rising with uncontrollable speed.

Most prominent among the economic plans concocted to address the dilemma of stagflation was the "supply-side economics" of Arthur Laffer, *et al.* The Keynesian remedies of deficit spending and interest-rate cuts were called "demand side" policy, because they put more money in the hands of consumers, which would create demand for more production. Supply-side policy, on the other hand, focused on tax cuts, especially on higher incomes and greater wealth. It was thought that this would stimulate more investment in production, increasing demand for labor.

In practice, however, neither of these major currents of macroeconomic policy, whether applied separately or in combination, proved capable of curing stagflation. Four centuries of refinement in economic science had still not solved the chronic problems of poverty and boom/bust cycles.

The Bigger Picture

However, as we noted at the beginning, the mainstream economic "canon" has a gaping hole, where one might hope to find a synthesis of left vs. right, freedom vs. justice, efficiency vs. equity.

Wikipedia's article on "History of Economic Thought" lays out the same economic milestones that I have very briefly summarized here. At the top, the management has inserted one of their little warnings to the effect that the ensuing public-generated text may not pass full scholarly muster. This one says, "The examples and perspective in this article may not represent a worldwide view of the subject." That's interesting. What might that mean?

If we step back and try to take a broader, more holistic view of these questions, we'll get a hint. The science of political economy, or economics, arose along with the rise of European political and, to a large extent, cultural dominance over the rest of the world. At the great risk of overgeneralizing, it is evident that the rise of industrial production and international trade, guided and facilitated by the development of classical economics, required a distinct understanding of such concepts as property, surplus and sovereignty. The importance of private property, for example, is explicit in the United States Constitution. Indeed, it is central to the next century, at least, of US history. It took a Civil War and constitutional amendment to resolve the issue of property in human beings. Mainly because of that

initial compromise, the legal question of property remains an essentially arbitrary matter, without any reference to first principles. Land, for example, is private property, unless the community decides to take it away, with compensation to the owners — but how much of land's value can be taken away before compensation is required? The wealth that people create, and the wages that they're paid, are their own private property — until the government comes along and confiscates some of it, and does so according to rules that unconstitutionally invade privacy and require self-incrimination!

Of course there has been economic thought outside of the Western tradition. Other societies have had different notions of property, surplus and sovereignty. In particular, the idea that land could be private property and traded, as could a blanket or a weapon, was not recognized in many traditional societies. The economic institutions of private property, and secure land tenure, were needed for modern economies to develop. Yet there remains something about the idea of land being common property that feels right to most people — though this "rightness" also seems a naïve, childish notion.

In recent years, though the age-old economic challenges of poverty and boom/bust cycles have by no means been solved, another chronic economic problem has taken its place beside them to complicate matters still further. Our pursuit of prosperity by means of "economic growth" has created a crisis of sustainability. Indeed, our modern environmental crises have brought back the old Malthusian "overpopulation" theory — except that this time, instead of merely physically crowding each other to death, our constant "production of stuff" threatens to overwhelm the planet's capacity to absorb the pollution it creates. Now, the challenge of environmental sustainability takes its place beside the classic economic problems of poverty and boom/bust cycles.

This, in brief, is where the "dismal science" finds itself at the beginning of the 21st century. It doesn't seem very hopeful. And yet, we contend that Henry George's economic ideas — properly understood and placed in a modern context — point toward a constructive synthesis that allows political economy to tackle these seemingly intractable problems. As you begin this course, I leave you with Henry George's message about the prospects of our study:

> *Political Economy has been called the dismal science, and as currently taught, is hopeless and despairing. But this... is solely because she has been degraded and shackled; her truths dislocated; her harmonies ignored.... Freed, as I have tried to free her — in her own proper symmetry, Political Economy is radiant with hope.*[4]

An Exercise

In economics, terms are often used quite differently from how they are used in everyday speech. To get a sense of this, try categorizing these items now — and then take another look at them after you've read our next section. Each could be categorized as one of the Factors of Production: **Labor, Land** or **Capital**. Or perhaps they don't fit in any of those categories...? Or perhaps in more than one at the same time...?



Fish in the ocean



Computer programming



A nice house



A stock certificate



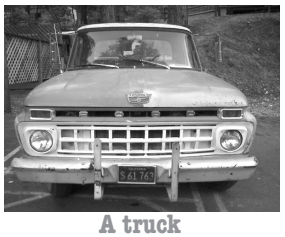
A building site



A geosynchronous orbit



Playing music in the subway



A truck



Your kid's drawing



A vegetable garden



A $100 bill



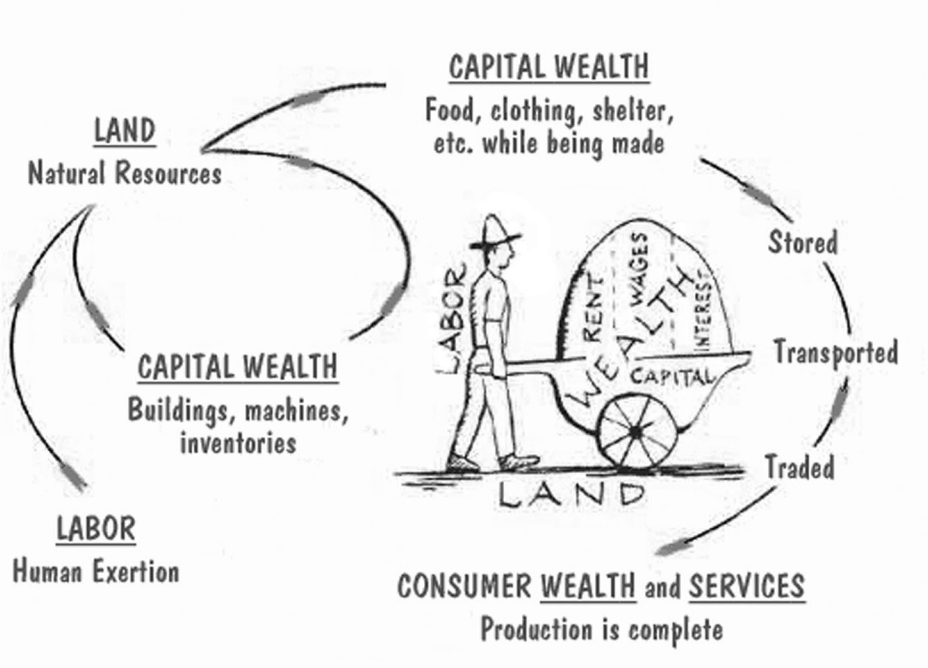
A liquor license

Economic Definitions

"Economics" and Political Economy

Political Economy is the study of how people get a living. What, then, is Economics? Although the two terms are sometimes used interchangeably, there is a subtle distinction to be made between them. "Political Economy" is the older term, and it was used by Henry George and the classical economists. Most standard textbooks today define "Economics" as "The science of how people make choices for the allocation of scarce resources to satisfy their unlimited desires." That is a statement of the basic dilemma called "the problem of scarcity." The classical political economists recognized the problem of scarcity, but they were preoccupied with the economic life of the entire community — with the "wealth of nations." They sought to identify the principles that underlie the production and distribution of wealth. As it is most often taught today, economics pays little attention to the distribution of wealth. Why the change? That is a question we will ponder as we go through this course. Because wealth distribution is a central concern for us, we will continue to call our study Political Economy — which we define as:

The science which deals with the natural laws governing the production and distribution of valuable goods and services.



The Three Factors of Production

One of the central characteristics of this course is its focus on land as a distinctive factor of production, which must be considered separately from the other two factors, capital and labor. This is a point that modern-day economics de-emphasizes, or even denies outright. Why is that? Could it be that land *was* an important economic factor, way back when — but today's social complexity and advanced technology have freed us from dependence on nature?

Not one bit. Land is needed for all production, for all human life and activity of any kind. When most people think of "land," their mental picture is of farm land: crops, orchards, pastures. But in fact, the most valuable natural resource in modern society is urban land. In cities, activities take less land area per head, but more land value, because the price of city land (per unit of area) is hundreds, sometimes thousands of times higher than the price of rural land.

The factors of production are:

Land.

The entire material universe exclusive of people and their products.

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

Radio and TV communications use the radio spectrum, a limited natural resource. Drivers of SUVs and other fuel-burning machinery use the earth's atmosphere as a dump for their greenhouse-gas wastes. To understand the meaning of land as a factor of production, we must conceive and define land broadly, as the entire set of natural opportunities.

Labor.

All human exertion in the production of wealth and services.

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.

Capital.

Wealth used in the process of production, which includes wealth in the course of exchange.

Capital is a subset of wealth (see definition below). Any item of wealth could be used as capital; it could be sold or used in production. This is implied in our definition of production, when we note that production is not completed until wealth reaches the final consumer. If an item of wealth is to be used as capital, its owner foregoes consuming it for that time.

In political economy, we define capital as a factor of production. We should note that this is quite different from the way "capital" is defined in conventional economics courses. There, capital is generally considered to be any asset that will yield its owner a return. Such an asset could be "capital goods" (wealth used in production), or it could be land, or money, or the investments in education or skill that are commonly termed "human capital."

Distinguishing the three factors of production is crucial to our analysis. Our most important objective in political economy is to understand the distribution of wealth in society. In order to do that, we need consistent, mutually exclusive definitions of the factors of production. Labor is only human exertion; capital is only physical products of human labor; land is only things not created by human labor. They are not convertible into each other. (For example: something can be built on land, but if the building is destroyed, the value of the bare land remains.)

Economic Definitions

Here we'll define the rest of the terms used in this course:

Wealth.

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

This means that wealth 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; if they are destroyed, the sum total of wealth is not decreased.

4. Wealth has exchange value. (see definition below)

Production.

All the processes by which human labor creates goods and services and brings them to the ultimate consumer.

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

The goal of production is the satisfaction of human desire.

Services[5] are direct satisfactions of human desire, not put into material form.

Value.

The quantity of labor, goods or money that people are generally willing to give in exchange for something.

In political economy we deal with exchange, or market, value. A thing's exchange value does not depend on how much an individual may (or may not) value the thing; indeed it doesn't depend on any intrinsic quality of the thing. Value also has nothing to do with the amount of labor that went into something. Some natural resources have great value, yet were not produced by labor at all. Other things were created with great amounts of labor, yet have little or no market value — such as a derelict building, a junked car or an old computer.

Personal value or "utility" is, of course, an important consideration; it is the tension between personal value and market value that makes "the market" happen. However, when we refer to "value" in this course, we mean exchange value. This is because of the paramount importance of wealth distribution to our study. If a thing has no market value, it could have great value or importance to some people — yet not affect the overall distribution of valuable things in society.

The meaning of "economic value" is an important and contentious theme in political economy.

Distribution.

The division of production (aggregate wealth and services) among the factors which produce them.

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. The returns to each factor are determined by common forces, but each can be clearly separated from the other two.

Rent.

That part of aggregate production 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. Because of our focus in this course on the distribution of wealth, we restrict the term rent to the return to land.[6]

Wages.

That part of aggregate production 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 aggregate production which is the return for the use of capital.

In common parlance, a borrower pays "interest" to a creditor. This is also how "interest" is defined in many economics texts: as the payment for time preference — for being able to use or consume things now, rather than later.

This element of time preference was also part of the classical economists' concept of interest, which Henry George used. However, George and the classicists were careful to distinguish between true capital (which today is commonly called "capital goods") and returns to other assets such as money, land or financial instruments. Henry George called upon his readers to understand the difference between capital, the factor of production, and "spurious capital and profits commonly mistaken for interest." For the purpose of consistency and simplicity, we have retained George's use of the term "interest" in this course to mean "economic interest" — the return to capital as a factor of production. We should remember that borrowed money may or may not be spent on capital goods; in fact, a great deal of borrowed money goes toward the purchase of land.

Why Consistent Definitions are Vital

George defines his terms carefully in advance, and sticks consistently with his definitions. It is all too common for economists to muddy the waters by not defining their terms, and then by using them in shifting ways.

The three factors of production work together to produce a "pie" which includes all goods and services. When we seek to identify the Laws of Distribution, we are looking for the principles that determine what proportional shares go to the three factors under certain conditions.

It is not Land itself that gets rent, of course, but those who own land. It is not Capital itself that gets interest, but the owners of capital. If someone owns both, and manages them himself, then that person gets an income, called "profit," which contains all three elements: rent, interest, and wages-of-management. We don't consider profits here, because our job in this course is to analyze functional distribution — to show how wealth is distributed among the three factors that account for it. This is a study of patterns and relationships that affect the entire community. Individual or "personal" distribution — which is what microeconomics explores — is not concerned with the whole community, and uses terms differently, for different goals.

Let's check those categories from page 5:

Labor:

- ✓ Computer programming
- ✓ Playing music in the subway

Land:

- ✓ Fish in the ocean
- ✓ A building site
- ✓ A geosynchronous orbit

Capital:

- ✓ A truck

Land and Capital:

- ✓ A vegetable garden
- ✓ A nice house

None of the above (with explanations):

- ✓ Your kid's drawing (Cute as it is, it doesn't become wealth — or capital — until someone is willing to exchange something for it!)
- ✓ A stock certificate (It provides evidence of ownership, but in itself, it is not wealth. If it is destroyed, the things it represents still exist.)
- ✓ A liquor license (This gives its holder a privilege, granted by the government. The privilege might be valuable — but, it is not produced by labor.)
- ✓ A $100 bill (A medium of exchange; money is not consumable, only exchangeable. It does not directly satisfy human desires.)

Overpopulation: Is There Such A Thing?

The rich grind the poor into abjectness and then complain that they are abject.
They goad them to famine, then hang them if they steal a sheep. — Percy Bysshe Shelley

In our search for the cause of widespread poverty, the first question we must tackle is whether it is the result of our own inexorable fertility. That was the theory of Thomas Robert Malthus (1766-1834), the English Cleric, author of the *Essay on the Principle of Population* and originator of the perception of economics as "the dismal science." Malthus reasoned that human population tends to grow at a geometrical rate, while our ability to produce subsistence increases at a merely arithmetical rate — and so we find ourselves in an ever-deepening spiral of suffering caused by overpopulation. In Malthus's view this process could only be slowed by the "preventive check" of decreased fertility, or the "positive check" of increased mortality.

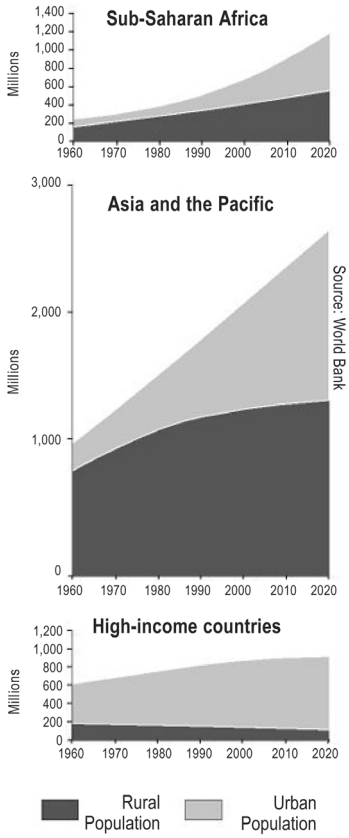
The Malthusian theory was once thought to be quite sufficiently denounced, relegated to the status of a footnote in the history of economic thought. Henry George's chapters on poverty and subsistence in *Progress and Poverty* stand as the definitive marshalling of the abundant logical ammunition against it. At the end of the 20th century A.D., however, an increasingly influential crew of neo-Malthusians is bringing the theory back, contending that subsistence can only keep ahead of population growth at the cost of an unsustainable level of environmental harm.

Seven billion people is a lot of people, no doubt about it. Is it too many? The neo-Malthusian view seems reasonable, especially when fortified by such facts as these (published by the Population Institute[7]):

- ☞ An estimated 680 million chronically hungry people.
- ☞ As population and hunger increase in the developing world, water availability for irrigation is declining.
- ☞ The FAO estimates that by 2020, 135 million people may lose their land as a result of soil degradation.
- ☞ Of the 20 countries that rank highest on the 2011 Failing States Index (published by *Foreign Policy* magazine), all but one have a total fertility rate of 3.5 or higher.
- ☞ Between 1999 and 2011, the world's population increased by 1 billion.

These statistics show that there is plenty of poverty — but do they indicate overpopulation? We mustn't let ourselves be bamboozled by numbers. Human population has been increasing by about 1% per year, and the overall rate has been decreasing. The Earth has the capacity to absorb such numbers. Today, vast capacities of the earth's resources lie unused. Still more arable land is being destroyed by unsustainable farming or settlement practices. And even more of the earth's "carrying capacity" is being used to make weapons, or toys, or crops for export — all manner of things that, despite the wretched poverty of most of the world's people, no one needs for survival.

The United Nations Food and Agriculture Organization estimates the earth has the capacity to grow food for some 33 billion people. Critics will protest that such tremendous yields would require the dubious efficiencies of monoculture, petrochemical fertilizers and genetic engineering. However, in all likelihood, the world will never need to grow anywhere near that much. Current UN estimates project a plateau population of between 9 and 11 billion people midway through this century (and it's worth noting that every time this top figure has been estimated, it has been a lower number). Modern "industrial" farming techniques make it easier to run large-scale, remotely-managed corporate



These charts show one of the most troubling trends in world demographics. Ever-increasing numbers of the world's poorest people are moving into cities. This has placed great pressures on already-troubled nations. Does this show that the world's poorest nations are running out of land? Not at all. Huge tracts of farmland are used to grow crops for export. Often, the farmland that was once available to peasants has been bought up by multinational corporations, under the rubric of "global free trade."

farms, but they are not needed to create high yields of nutritious food.

The total area of arable land in the world today, according to the *CIA World Factbook,*[8] is 5.4 billion hectares. The definition used is land that is under cultivation, or fallow for less than five years — but it excludes abandoned land resulting from shifting cultivation. Each person in Ethiopia could have about a third of an acre of arable land — enough for basic subsistence. Africa, the poorest continent, has 20.2% of the world's land area, and only 16% of its population. North America has a whopping 2.1 acres of arable land per person!

While it is true that many regions have experienced frightening rates of deforestation and topsoil loss, these problems result from land hoarding, not overpopulation. Around the world, peasants push into sub-marginal land while high-quality farmland is either used to grow export crops, or held out of use entirely. The situation is so acute in Brazil, for example, that squatters have been massacred simply for occupying remote, unused areas of privately-held ranches. A large, organized movement has grown around the peasants' demand simply to be allowed to use land that others have no (current) use for.

Two factors consistently correlate with high birth rates: poverty and lack of education. It has long been known that when living standards rise in a community, birth rates tend to decline; this widely-documented phenomenon is called the "demographic shift." Recently, however, another kind of demographic shift has been observed. Where women have had access to education and media, birth rates have showed significant declines — even when income levels had not increased. It is instructive to note, in the table below, the correlations between lower life-expectancy and literacy figures for women, and the standard measures of poverty.

The most distasteful part of the recent spate of neo-Malthusian cant has been the notion that irresponsible poor people should be stopped from procreating, lest their hungry numbers start to wrest control of the resources held by more "civilized" sorts. It is true that the developing world cannot raise its standard of living to "western" standards, using the same wasteful methods, without causing horrible damage to the natural environment. However, it is also a fact that the long-term trend has been for more human satisfaction to be provided with less pollution. Environmentally sustainable technology for industry, food and energy production is available today. The reasons why it is not used effectively have more to do with politics than with technical feasibility.

It remains an unfortunate fact that the world's poorest, most corrupt, most disorganized and environmentally endangered nations are the ones with the highest birth rates (of course, they have fairly high death rates as well; Africa's population actually decreased in the late 1990s). So, the neo-Malthusians identify genuinely dire problems. But it is time we got it straight: poverty is not caused by overpopulation. There can never be such a thing as overpopulation in a world where ample resources exist to feed every new child — but those resources are held idle, or devoted to frivolous uses. The miserable conditions that are misnamed "overpopulation" today are the result of poverty, not its cause.

— Lindy Davies

Some World Population Facts

	Population (millions)	Population growth (%)	Per capita GDP	Life exp. at birth M	Life exp. at birth F	% under 14 years	Internet hosts /1000 people	People per km^2	People per hectare* of arable land	Oil consumption (bbl./person/year)
United States	313.2	0.96	47,200	75.9	80.9	20.1	1,401.7	31.9	1.8	22.3
Bangladesh	158.6	1.57	1,700	67.9	71.6	34.3	0.4	1,101.9	19.9	0.2
Brazil	203.4	1.13	10,800	68.9	76.3	26.2	95.0	23.9	3.4	4.8
China	1,336.7	0.49	7,600	72.7	76.9	17.6	11.4	139.3	9.4	2.5
Egypt	82.1	1.96	6,200	70.1	75.4	32.7	2.3	82.0	28.1	3.3
Ethiopia	90.9	3.19	1,000	53.6	58.8	46.3	0.0**	82.3	8.2	0.2
India	1,189.2	1.34	3,500	65.8	67.9	29.7	3.8	128.0	2.6	1.0
Indonesia	245.6	1.07	4,200	68.9	73.9	27.3	5.2	129.0	11.7	1.9
Japan	126.5	-0.28	34,000	78.9	85.7	13.1	433.7	129.3	11.1	12.8
Mexico	113.7	1.10	13,900	73.7	79.4	28.2	113.0	57.9	4.6	6.7
Nicaragua	5.7	1.09	3,000	69.8	74.1	31.7	27.8	43.2	2.9	1.9
Russia	138.7	-0.47	15,900	59.8	73.2	15.2	74.8	8.1	1.1	7.7
Singapore	4.7	0.82	62,100	79.5	84.9	13.8	209.4	6,899.6	4,693.6	83.2
South Korea	48.8	0.23	30,000	75.8	82.5	15.7	6.0	489.0	29.5	16.9
United Kingdom	62.7	0.56	34,800	77.9	82.3	17.3	112.1	257.3	11.1	9.4
The World	6,928.2	1.09	11,200	65.2	69.1	26.3		46.5	4.4	4.6

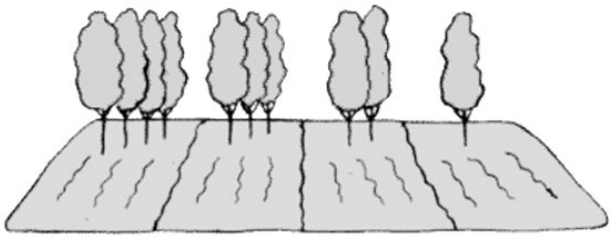
* A hectare is about 2.5 acres

** The actual number of internet hosts was 151

Source: CIA World Factbook, 2011

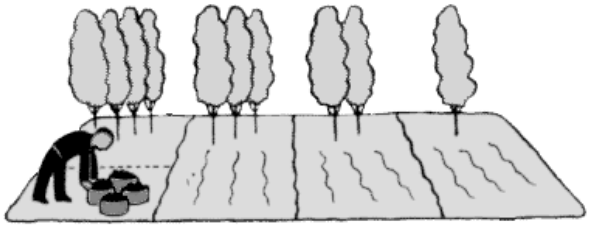
The Law of Rent

1. Different Grades of Land



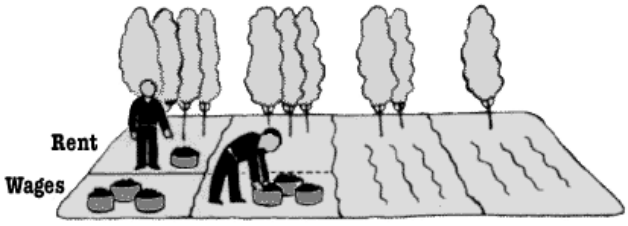
Here are four sections of a piece of land, with natural resources (fruit trees). Let us assume you can get one bushel of fruit from each tree. On the best section, you can get four bushels in one day. On the next section, with the same day's labor, you can get only three bushels.

2. First Comer — All Wages



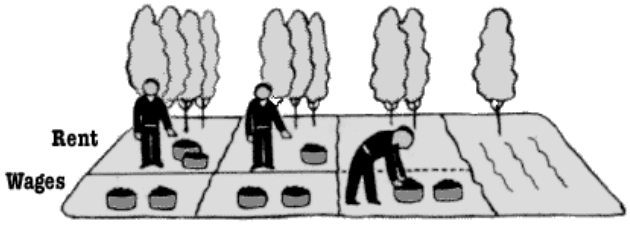
So far, all this land is free. The first person who comes to pick fruit will appropriate the best land available. This land becomes the margin of production (indicated by the dotted line). One day's labor gains four bushels: the worker's wages.

3. Second Comer — Rent Begins



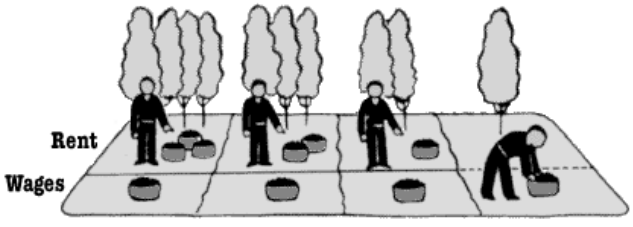
The next comer has to be content with the three-tree section. (This now becomes the margin of production.) Here, three bushels are the reward for one day's labor. These two people do the same work, yet one gets four bushels and the other only three. Why? Because of the difference in the land. Since the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

4. Third Comer — Further Rise of Rent

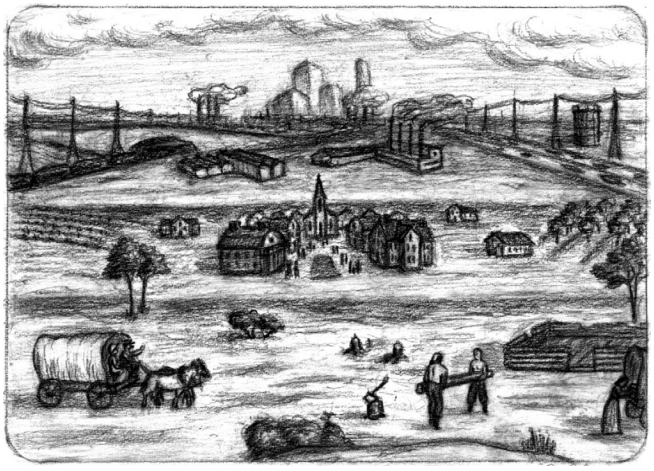


The third comer has to use the two-bushel land (which now becomes the margin). Wages on all lands are now two — for that is the most that can be had without the payment of rent. If the third comer wanted to work on the three-bushel land, its owner would take one bushel as rent. The rent represents what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

5. Fourth Comer — All Land Used

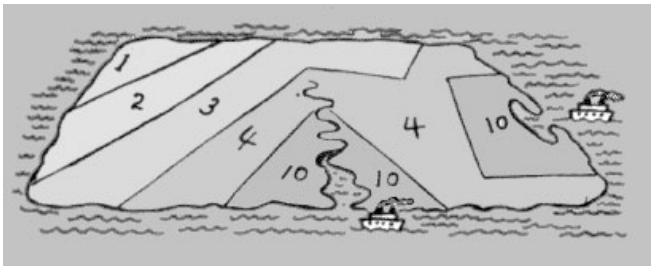


When the fourth comer arrives, the only land left is the one-bushel land. Now, all the other lands have a rent in proportion to their superiority over this land, which is now the best land available without the payment of rent: the margin of production.



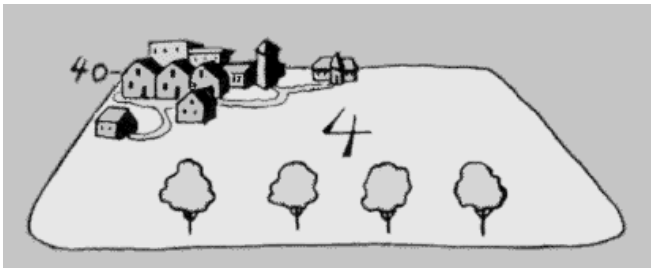
"Here, let us imagine, is an unbounded savannah...."
(chp. 19)

6. Other Natural Differences



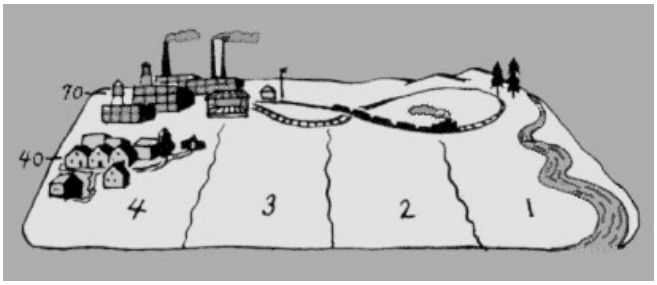
So far our examples have been very simple, using only one variable. In the real world, that never happens! The operation of rent is influenced by the great variety of factors that make one piece of land superior to others. A good harbor or a navigable river, for example, makes the surrounding land valuable.

7. Growth of Population



Assume that a good piece of agricultural land (as in our earlier charts) yields four. 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?

8. 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.

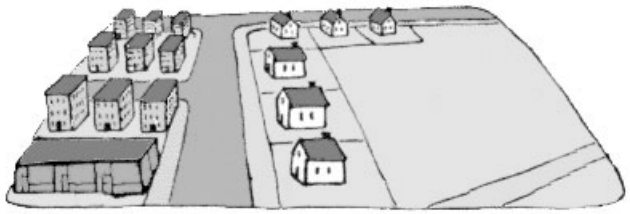
9. Land Speculation



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.

10. 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.



..whatever is potent for evil may be made potent for good. The change I have proposed would destroy the conditions that distort impulses in themselves beneficent, and would transmute the forces which now tend to disintegrate society into forces that would tend to unite and purify it. — *Progress and Poverty*

Capital, Interest and Profits

The classical meaning of capital is "wealth that is used in production, including 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 misconstrued. It might be helpful to remember some of the things that capital *is not*. Capital is not land, because capital is wealth produced by labor; land is not produced by labor. Capital is the material product of labor, not the labor itself — so, it is not any form of service or skill. And — this last one creates great confusion — capital is not money, or stock certificates, or bonds. Those things represent ownership of assets, which could be capital, or could be land, or some form of monopoly or license.

Another thing that capital is not — in its use here as an economic term — is a social class. It has often been held that the concerns of Labor and Capital are at odds in our "Capitalistic" economy. But that can only be true if we are thinking of Labor and Capital as the opposing forces in the dynamic of Class Struggle. In that scheme of things, "Big-C Capital" is the "ownership class" — which owns not just capital goods, but land as well — and controls the doling-out of privileges.

Different studies define terms differently, depending on what questions they seek to answer. Some consider "Capital" as a socio-political class. Some examine "capital" as any sort of asset that can yield a return. In this course, we're looking at capital as a factor of production. In Henry George's day, the return to this factor was commonly called "Interest." Although many people use this term differently today, in this course we retain the term for the sake of consistency and simplicity. Henry George himself suggested clarifying the term by designating the return to capital as a factor of production "economic interest" — as distinguished from "financial interest," the commonly-used sense of the term.

Is capital, as such, 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 $500,000 — but no land to put it on. What can we do to get an income from it?

We could sell it, deposit the proceeds in a bank, and get a safe (but small) income. If we think we can get a greater income from running the trucks ourselves, we'll keep them. To do that, we've got to haul stuff in them — we've got to use them in actual production. We must rent, or buy, some land to put them on. We must maintain the fleet, or they will soon be worth nothing. We must pay wages to ourselves or to someone else to drive them and service them. If we don't know how to run a trucking company, we could trade the trucks for some form of capital that we do know how to use. But capital in any form must also be maintained — and operated — and located somewhere. How can the ownership of capital *per se* yield us an exorbitant income? Owning capital sounds more like a headache than a goldmine!

That may be true — but don't we see "capitalists" getting rich in our "capitalistic" economy? Don't we watch wages go down while profits go up?

Profits, in Political Economy

Just what are profits? What is the relationship between profits, wages, interest and rent? 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. In our everyday sense of things, "profit" is an accounting term that simply means a business's income, minus its expenses, during a certain period. That income most likely comes from a combination of all three factors: labor, capital and land.

However, just as we distinguish between the everyday usage and common meanings of economic terms, many economists — and economics textbooks — introduce a concept called "economic profit." Whereas normal, or accounting, profit is the difference between a firm's income and the cost of the factors used in producing it, economic profit is the difference between a firm's income and the cost of the factors it *could* have chosen — which is called its *opportunity cost*. Because it involves comparing choices among alternatives, economic profit is seen as a payment for entrepreneurship — economic decision-making and risk-taking. Some go as far as to define Entrepreneurship as a separate factor of production, which earns a factor payment called Profit. (See page 31 for an examination of this scheme of definitions in a mainstream "econ" text.)

Many economists severely underestimate the economic role of land and its rent. As reported in US national income statistics, aggregate rent is less than 2%

of national income. If rent is no more than that, then land can be seen as a relatively trivial factor. However, the national income reports use a very narrow definition of "rent," counting only payments to landlords for rented land. The prices paid for land when purchased, or held for collateral, and the share value of corporations based on land holdings indicate a very large proportion of land rent within the distribution of nation's wealth. So where is the rest of it?

Here is where the designation of "economic profit" as the return to "entrepreneurship" can be very useful, politically. It allows the monopoly return from land rent — unearned, by definition — to count as part of the "legitimate" income earned by risk-taking entrepreneurs. Such income is, generally, immune to criticism (and to most taxation), because entrepreneurial innovation is seen as the backbone of the market economy. But, although it is kept well-hidden in conventional textbooks, this conception of rents and profits is fallacious. Rent is either a payment to the passive factor of land or to the active factor of entrepreneurial labor — it can't be both.

We define Land as the passive factor in production: natural opportunities which command an unearned payment, independent of anything their owners do. We define Labor as all human exertion, both physical and mental, in production. So, if people want to think of economic profit as a payment for entrepreneurship, that's fine — as long as they recognize that entrepreneurship is something that is done by labor, the active factor in production. Economic Profit, then, cannot contain Interest, or Rent, or any payment to monopoly or privilege. (And, in our task of analyzing the distribution of wealth in society, we can do just fine without this concept. All it tells us is that "economic profit" — the return to entrepreneurial labor — is a subset of wages, the return to all labor.)

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 will suffer if shortages of either labor or capital go unmet. However, labor and capital can do nothing without access to land. The utterly key distinction which we must keep in mind is that between land and wealth. When this distinction is lost, as it often is in modern economics, great confusion ensues.

For example, if land and capital are considered together, we lose sight of the vital fact that rent varies inversely with interest. That is because the return to capital, like the return to labor, depends on the margin of production. When the opportunity at the margin diminishes, the return to both labor and capital decline, while rent increases.

Here is how Henry George states Ricardo's Law of Rent: "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" — or in other words, the margin of production. Thus, the Law of Rent is the basic law of wealth distribution in society.

What Does "The Same Application" Mean?

You might have noticed that the conditions of production at the "margin of cultivation" (simple farming and mining) are very different from those on the most valuable land (what goes on in, say, the Financial District). How can there be any such thing as "same application" of labor and capital"?

It will help to recall that the "same application of capital" is not the same thing as "the application of the same capital." That's because capital is fungible. It can be converted — with the convenient aid of money and banking — into whatever form is called for under particular conditions.

At the frontier, virtually no production is possible without the use of such simple capital as an axe, a shovel or a plow. Having those tools would make an individual's labor hundreds of times more effective than it would be without them. Doesn't that mean that the return to capital is actually much higher at the margin?

At the frontier, land is free, so the worker would use as much land as she could profitably use. But if she has any sense, she won't work that land with her bare hands. She will devote some of her labor to securing the capital she needs to make her labor more productive. Using those tools will make her labor, say, maybe, 1,000% more productive than it would have been without them.

Since capital is so important, won't the owner of capital demand an exorbitant payment for its use? No — because capital isn't a monopoly. If our settler can't get it from one greedy capitalist, she can make it herself, or borrow it from someone else. The capital

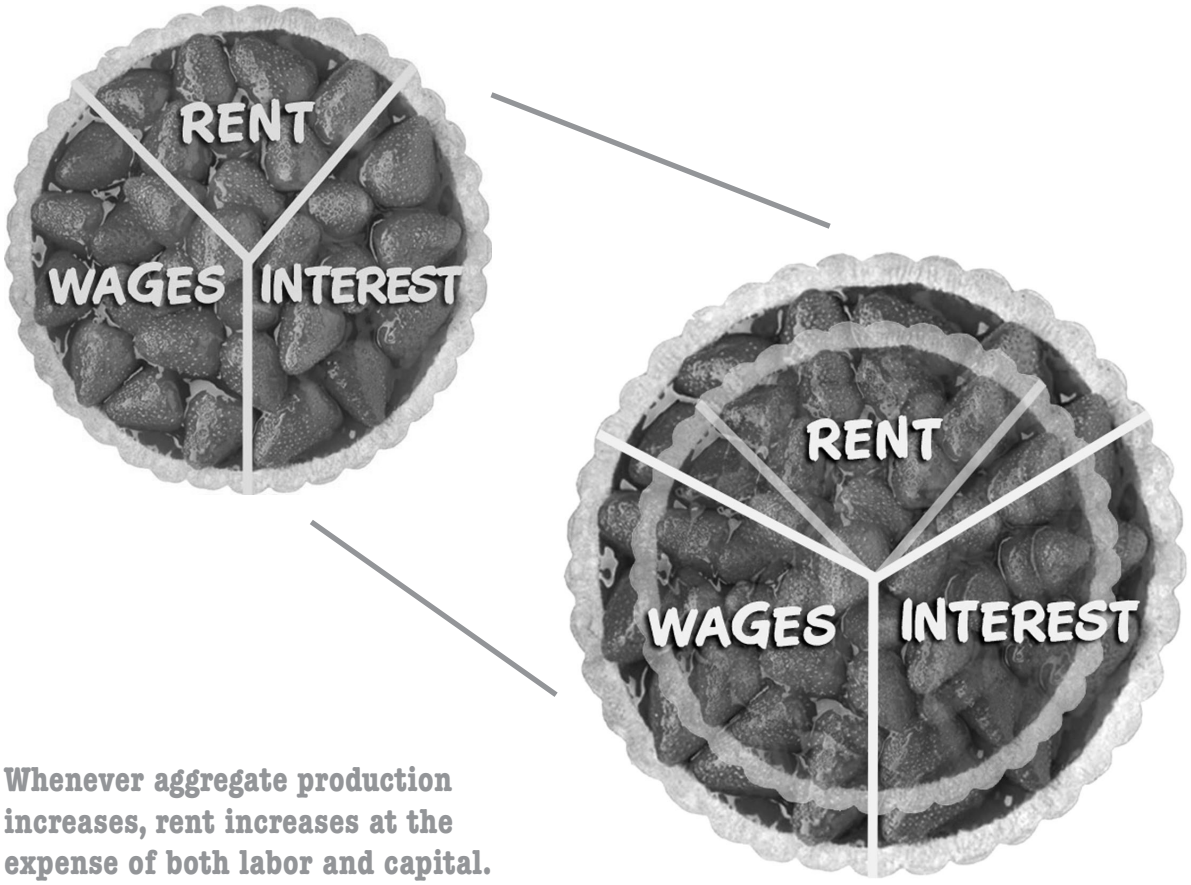
owner has to decide which would benefit him more: to use the tool himself, or to loan it. If the capitalist decides to loan his capital, he has decided that the wages he'd earn by working in some other way will be higher than what he could earn by using his capital himself. He will be willing to loan out the tool at the general rate of interest.

Why can't he charge more? Well, he could if he had a monopoly — if no other capital were available to do the job. But that would be an extraordinary situation. Capital is produced by labor — and in the real world, suppliers of capital goods compete to get labor to pay for their use.

Perhaps the capital owner could take his capital to the city, and in that highly-productive environment, it would enhance labor's productivity much more than it could at the frontier. Ah, yes, but he would have to pay for land on which to use it — and land in the city is pricey. That is why the laws of distribution tell us that the return to capital at the margin will be the general rate of return to capital everywhere else. Capital may be cast into different forms or put to different uses, in different amounts — but the rate of return to capital will equal the optimal return that it could get where the land is free.

As long as there is any viable opportunity at the margin of production, that is where the return to capital is determined.

And when there is NO viable self-employment opportunity at the margin, do the laws still remain in effect? Indeed they do — but in that case there is one difference. Even if the marginal alternative drops to zero, wages and interest cannot fall that low. Labor has to stay alive, and capital must be maintained in usable condition. So if there is no self-employment opportunity at the margin of production, then wages and interest fall to the lowest level that labor and capital will accept, to get them to come to work.



Whenever aggregate production increases, rent increases at the expense of both labor and capital.

The Dog in the Manger



In one of Aesop's fables there was a dog, who didn't want hay, but nevertheless commandeered a manger, refusing to let the other animals eat. That's an apt description of the economic role of land speculators. Not ready, or willing, to use the land they hold, they deny its use to others, and the whole community suffers.

Students who are eager to solve social problems might be inclined to seize on the land speculator as a villain to go after! Land speculation was an explicit "occupation" in the early days of the United States, while the vast North American continent was being emptied of native peoples and opened for settlement. Nowadays, though, land speculation so thoroughly pervades our economy that it's meaningless to discuss "land speculators" as a group. The role of land as an investment, and the expectations of its changes in value, bear on a great many economic decisions.

Probably the largest overall set of participants in the land speculation game are the roughly 65% of US families who own their homes. (Of course, by "own," we usually mean "hold some equity in" and "make mortgage payments on.") Homeowners make interest payments far in excess of the selling price of their real estate. They are encouraged by Federal tax policy to do this, for mortgage interest is tax deductible, whereas rent payments are not. However, the only reason people are willing to take out a mortgage is that they expect their real estate value to increase over time. Most Americans do little or no saving (and have done progressively less saving in recent years). Some 65% of US households, then, count on land speculation for their retirement nest-egg.

Corporations are also major land speculators. Land makes up a significant portion of corporate assets, and land rent is a big part of corporate profits. Corporations own concentrations of pricey urban land, as well as vast acreages of farm, timber and mineral lands. This is not usually emphasized, but it is a huge part of doing business. Often, after a "leveraged buyout" of a company, the selling off of that company's undervalued real estate is what makes the deal profitable.



Many upper middle class suburbs house people at 10,000 per square mile. From that it follows that 300,000,000 people can be housed in a circle with radius of about 100 miles. Greater L.A. and San Diego and San Francisco all reach out 100 miles, along with dozens of cities in 49 other states, and scores more worldwide.

— Mason Gaffney

Corporate control of land is not just the province of the super-rich. Many citizens invest (often indirectly, via pension funds) in stock markets. Thus, the majority of people in the United States, and in other modern economies, have a personal stake in the economic status quo. Whether they realize it or not, they are all playing the land speculation game! (Undoubtedly this has something to do with why a widespread appreciation of Henry George's insight has been so hard to achieve.)

What Does Land Speculation Do?

Although the effects of land speculation on our economy and society are dramatic, they are such a part of the normal state of affairs that they are sometimes hard to identify. The economic role of land is profoundly obvious, if only one can see it at all (see back cover). For now, it will suffice to mention the four main types of effect that land speculation has on: 1) economic efficiency; 2) the environment; 3) community; and 4) poverty.

Economic Efficiency. The land speculator stands to benefit from long-term increase in land value — but during that time, labor and capital, that would have been willing to put that land to its best economic use, must go elsewhere, farther from the centers of population and exchange. This decreases overall production every single time it happens. An economy that got rid of land speculation could produce far more goods and services, with the same resources, and less pollution.

The Environment. The most visible effect of land speculation is the epidemic of suburban sprawl. High rents and poor public services in urban centers lead to the syndrome of "urban blight, suburban flight." Public infrastructure decays in cities, while new tax revenues must be raised to provide it to ever-wider areas. The overall number of highways and vehicle-miles increase, along with all the pollution they cause. There is great concern about the problem of climate change, and people urgently seek ways to reduce our consumption of fossil fuels — but there is little chance of doing so in an economy characterized by sprawl, and dependent on personal automobiles. Improved

public transportation could greatly reduce pollution — but when cities are strapped for revenue, and taxpayers are fleeing to the suburbs, who is going to pay for it?

Community. The suburban sprawl/freeway commute lifestyle is widely maligned. People lament the loss of "community," of ways of living that seemed friendlier and more connected with neighbors, schools, hometowns, etc. Some move away from the megalopolis to rural areas that seem "unspoiled" — yet these migrations bring on sprawl pressures of their own, and soon new freeways, beltways and shopping malls spring up to serve the influx.

The apparent "inhumanity" and "dysfunction" of modern communities has led to a movement for "smart growth" and "new urbanism." Advocates seek to design communities for mixed uses, with homes located close to employers and shopping areas. Streets are designed to be pedestrian-friendly, green and welcoming; local services are provisioned to facilitate civic pride and involvement. When such places are established, they often become highly desirable places to live. Then, their land values skyrocket, and they become exclusive enclaves! It begins to seem as though our economy can only provide clean, sensible human-scale community to those who can pay premium prices.

Poverty. As we pointed out above, a large segment of the people in a modern economy have some stake in the economic status quo, and therefore, indirectly, participate in land speculation themselves. But, of course, a large — and growing — segment of the people do not. It is, perhaps, part of the genius of modern "mixed" economies that the benefits of land and its rent have come to be enjoyed by many more than just a tiny elite. Through the widespread availability of home mortgages, and participation in stock markets, the unearned income from land has been spread around among a large group in society. Their benefits, however, have come at the expense of the people who do not have access to land and its rent.

Consider the effect of home mortgages, which are subsidized in various ways by the Federal government. If more people are able to buy land, this pushes land prices up — raising the rent for people who cannot afford to buy real estate. Also, when the market for individually-owned homes is strong, the market for rental housing is depressed; its supply decreases and rents increase further for those who have no other choice.

This example from housing markets is, of course, only a part of the overall tendency for private land-withholding to create poverty. Its most important effect is still to lower the margin of production, denying labor and capital an alternative place to produce wealth, forcing them to come to market for whatever they can get.

In our next section, we'll further explore the modern ramifications of land speculation — including its effect on society's chronic tug-of-war between inflation and unemployment.

Other Voices on the Land Question

Moses (Leviticus XXV): The land shall not be sold forever; for the land is Mine; for ye are strangers and sojourners with Me.

John Locke (1632 - 1704): God gave the world in common to all mankind. Whenever, in any country, the proprietor ceases to be the improver, political economy has nothing to say in defense of landed property.

Thomas Jefferson (1743 - 1826): The earth is given as a common stock for men to labor and live on.

Karl Marx (1818 - 1883): Assuming the capitalist mode of production, then the capitalist is not only a necessary functionary but the dominating functionary in production. The landowner on the other hand is superfluous in this mode of production. If landed property became people's property the whole basis of capitalist production would go.

Adam Smith (1723 - 1790): Ground rents are a species of revenue which the owner, in many cases, enjoys without any care or attention of his own. Ground rents are, therefore, perhaps a species of revenue which can best bear to have a peculiar tax imposed upon them.

Tom Paine (1737 - 1809): Men did not make the earth.... It is the value of the improvement only, and not the earth itself, that is individual property.... Every proprietor owes to the community a ground rent for the land which he holds.

Abraham Lincoln (1809 - 1865): The land, the earth God gave 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....

Leo Tolstoy (1828 - 1910): Solving the land question means the solving of all social questions... possession of land by people who do not use it is immoral — just like the possession of slaves.

Sun Yat-Sen (1866 - 1925) The land tax as the only means of supporting the government is an infinitely just, reasonable, and equitably distributed tax, and on it we will found our new system. The centuries of heavy and irregular taxation for the benefit of the Manchus have shown China the injustice of any other system of taxation.

Mikhail Gorbachev (b. 1931): Natural rent must be a part of public revenue — what they don't earn but rather what they simply receive from the nation, from nature.

Land Speculation and the Boom/Bust Cycle

A THEORY of economic boom and crash is one of Henry George's two great purposes in *Progress and Poverty*. What causes the recurring "paroxysms of industrial depression"?[9]

This can be difficult to clearly see, because a variety of events have been associated with the onset of economic crises: natural disasters, sudden increases in oil prices, wars, political instability, etc. In fact, just about anything can seem to cause a recession — just as a straw, or a popsicle stick or a pencil, can break a camel's back — if the camel has already been loaded to the breaking point.

The root cause, says Henry George, is the speculative rise of land prices, which cuts into the earnings of labor and capital. Land rents and prices rise at a faster rate than general economic growth, because of two unavoidable facts:

- ☞ **Land is fixed in supply.**
- ☞ **Land is needed for all production.**

When sufficient numbers of workers and capitalists cannot afford to produce at the higher rents brought about by growth and speculation, production begins to stop.

Let us examine some of the implications of this fact for 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 too high, 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. Let's say that you own some land, which you might decide to improve. But, you have the option of selling the land to a speculator. Why improve the land if the profits on your 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. (See page 30 for an example.)

Banking and Credit is Destabilized. Builders needing land borrow to buy it, even though the price is too high, gambling that future rises in rents will let them repay the loan. If these rent rises fail to happen, they go bankrupt. Their buildings are not physically destroyed, but they are economically lost: the buildings lose their market value.

Unlike items of wealth, which are priced according to their cost of reproduction at the present time, land is not produced; it has no cost of production. Yet it is bought and sold like articles of wealth; how is its price determined? Land doesn't have a cost of production, but it does have a market-driven value associated with it: the stream of rental income the owner can expect to get from it. The selling price of land is determined by comparing its income potential with that of an equivalent value of wealth, through a process called capitalization. However, the capitalization of current rent is only the beginning. With land, there is nearly always an added premium reflecting expected price increases in the future.

The operation of credit intensifies the underlying effects of land speculation. Almost all land is bought with borrowed money. The buyer must purchase land at a higher price than the capitalized value of its current rent. In order to profitably develop the land, then, he or



How land speculation destroys capital: Two pervasive trends in the 2000s have been the proliferation of "McMansions" and of luxury condominiums. Many of the former are now in foreclosure, and many of the latter stand empty.



she must build a building that can bring in a greater income than the current market would yield on that site — by building a luxury building, and gambling that a new, pricier market can be created there. Speculation raises land prices beyond the sites' current use values. As a new land bubble inflates, this gap widens. Credit is extended farther in order to accommodate this. Banks are willing to lend on overpriced land, because they expect land value to continue rising. However, unlike the price of other commodities, land prices don't level out at a plateau of equilibrium; they either rise or fall. This is because so much land is used as collateral for loans, and so many loans are made for the purchase of land — always with the expectation of future increases in value. When the bubble bursts, prices fall rapidly — and many of the loans are not repaid. This destroys capital. The huge speculative bubble that led to the Economic Crisis of 2008 is a case in point, but the basic dynamics are there in every recession.



This is not a new phenomenon. John Stuart Mill had written (before Henry George) of a tendency of lenders, when legitimate demand for loans dries up, to "lower the quality of credit" by accepting high-risk loans they would have spurned before. Because land value is such a large part of collateral on loans, and land values fluctuate wildly in business cycles, the tendency toward these volatile, high-risk lending practices is very strong.

Everybody Does It!

Why don't capitalists needing land simply join in the speculative game? Couldn't they buy land at speculative prices and use it while it continues to rise in value? Actually, that's what they all do, in every case. No one can justify buying and holding land at today's prices without counting the future advance in price or rent as part of his or her gain. Thus everyone is hooked, forced by the market to participate in the speculative game, once it gets started. All become implicated and habituated, emotionally and politically, whether they like the principle or not. Eventually people forget that there could be any other way of doing business.

How do labor and capital resist advances in land value, when they must have land in order to produce? By ceasing production. Of course, this doesn't happen all at once, but marginally — bit by bit. 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 from the sidewalk. Some will retreat to little patches of marginal land. Some will buy as much land as ever, but thus use up funds they otherwise would have used to improve it, becoming withholders themselves. Some will organize and pass counterproductive rent-control laws. The economy-wide net result will be less production, more unemployment.

The role of land speculation in the boom/bust cycle can be summed up in one question — a question that most modern-day economists, despite their focus on economics as a *study of choices,* fail to ask:

How do investors react to a set of incentives where expected changes in land value are part of the overall return on investment — and land price is part of the investment on which a return is figured?

Land Speculation and Inflation

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

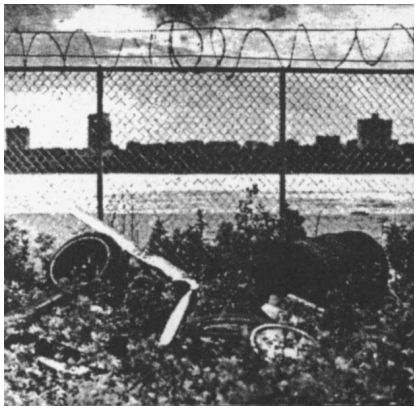
George said almost nothing in *Progress and Poverty* about inflation; in his day industrial depression was a much more serious problem. However, inflation was not unheard-of in those days, and a strong connection is implied in George's reasoning. Consider the following statement in *Progress and Poverty* regarding George's remedy (which this course is soon to consider): "Taxes may be imposed upon the value of land until all rent is taken by the state, without reducing the wages of labor or the reward of capital one iota; without increasing the price of a single commodity, or making production in any way more difficult."

What has this to do with inflation? George identifies land rent as an income that does not come from production; it is, in effect, a tax on production, the burden of which increases as production increases — due to rising demand for the fixed supply of land. The tendency of this process is, as we have seen, to raise land rents beyond the marginal ability of labor and capital to pay them — and depression is the result.

This process can be forestalled — for a while. Remember, the income of landowners increases as overall production increases, even though landowners make no contribution to production! The buying power that landowners gain, laborers and capitalists lose. But the effect of this can be blunted by increasing the money supply. When the supply of money increases faster than the supply of things to buy, that's called inflation. An increase in the money supply can stimulate demand for

goods, by making new investment less costly, thereby increasing demand for goods and for labor. Thus, an increase in the money supply, via lowered interest rates, can keep a period of economic growth alive — at least until the next election.

However, even this expediency is thwarted by the process of land speculation. Land prices are arrived at via the process of capitalization. Essentially, the annual rent of a site is divided by the current rate of interest, and this capitalized rent is the basis for the selling price (often with a speculative premium added). Now, if the central bank lowers interest rates to free up the money supply, this means that the divisor, the capitalization rate, is a lower figure — and therefore land prices will increase! In other words: at a lower rate of interest, one would need a greater value of wealth to equal the stream of income to be had from the land — so the land's price will rise. Many analysts, for example, noted that the persistently low interest rates maintained by Alan Greenspan's Federal Reserve in the early 2000s played a key role in the "housing boom" that followed.



Here is a shot of what was, for decades, the largest piece of vacant land in New York City, 53 acres of the old Penn Central rail yards. Donald Trump held this land idle for many years until, after epic wrangling and negotiation (including the re-routing of the West Side Highway at public expense), the land was developed into upscale housing. In the five boroughs of New York City there are currently (as of 2011) 33,142 vacant lots — a total area of 23.9 square miles.

Of course, in the real world a great many factors influence financial markets, and particular market situations are extremely complex. However, this by no means denies the pivotal, fundamental role played by land rent and land speculation. Eventually, in a growing economy, increased rents will consume the extra buying power. Then, one of two things must happen: either the money supply must be increased further, risking runaway inflation — or there must be a recession.

Is Full Employment Possible?

After the Great Depression of the 30s, governments 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. It seemed that one came at the expense of the other. Thus, employment surged until inflation started to heat up. Then, monetary brakes were applied, inflation slowed down, and unemployment started to rise. It became a truism that universal employment was not possible, in a modern market economy, without creating unacceptably high inflation.

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 major types of inflation. *Demand-pull inflation* occurs in a growing economy in which increased demand for goods and services leads producers to raise prices faster than the overall growth in output. *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 asking price, of goods whether demand is increasing or not.

It's easy to see that a combination of the two could result in stagflation. However, in Henry George's theory of the business cycle, we see that there is always a tendency for these two inflationary pressures to combine. In a growing economy, there will tend to be a "demand-pull" toward higher prices. However, as we have seen, land rents tend to increase faster than overall growth. Higher rents are passed on into consumer prices: a "supply shock" which grows more severe as the economy increases its output!

George's reasoning shows that inflation and recession spring from the same source. Land speculation does two things to create inflationary pressure: 1) It makes the entire economy less efficient by denying producers access to the best locations, thus increasing the cost of production at any level of unemployment. 2) It creates a growing cost-push effect by creating a general increase in the cost of both land and credit. 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.

Sensational Experience in Denmark

From the 1973 paper "Economic Liberalism" by the Danish economist Knud Tholstrup.[10]

Sensational practical experience was gained in Denmark in the years 1957-60 when the Danish Justice Party propagating land value taxation, free trade and equal rights, formed a so-called land tax government together with the Social Democrats (Labour) and the Radicals (Liberals). The three parties made an agreement based on: 1) Collection of land rent, 2) Liberalization of trade, and 3) A tax freeze....

It was thus generally expected after formation of the government that some kind of land value taxation would be introduced, with the result that land speculation ceased immediately....

The economic effects of the cessation of land speculation were astounding and aroused much attention far beyond the borders of this country. On October 2nd, 1960, the *New York Times* wrote: "Big lesson from a small nation," and professor Commager recommended that other nations learn from Denmark's example.

Prior to the 1957 election, Denmark had a sizeable deficit on her balance of payments, was considerably in debt abroad, burdened with a relatively high interest rate, big unemployment figures and an annual rate of inflation of approximately 5%. Devaluation threatened.

The following improvements took place in the next 3½ years (1957-1960):

1. The balance of payments deficit became a surplus.
2. Denmark's total debts abroad were reduced to one quarter of their former level.
3. The rate of interest — and thus all rents in new housing — went down.
4. Unemployment was soon replaced by almost full employment, together with considerable increases in production and wages.
5. Inflation was brought to a standstill
6. No new taxes during these 3½ years.
7. Import restrictions were lifted and duties cut.
8. There were no strikes.

At the general elections in 1960, however, the opposition... used the hitherto largest sum ever in any Danish election campaign financed by the Conservatives and land-owner associations. With its limited financial resources and lacking support from the daily press, the Justice Party was unable to withstand the violent attack. The party lost half of its votes, and was unable to collect the minimum required for representation in parliament.

Agitation against land tax legislation continued after the election and the new, weak government gave in in the face of strong pressure from land-owner associations and promised that the new law would be repealed, and this was done in 1964, just before its effects made a real impact.

After this the following took place:

1. The currency surplus became a currency deficit.
2. The annual deficit on the balance of payments is now, 12 years later, 4 times higher.
3. The effective rate of interest doubled.
4. Land prices jumped [by a factor of 6].
5. Rents in new housing are now six times higher.
6. The rate of inflation rose from barely 1% to 8.6% the year after repeal of the land tax law in 1964.
7. Taxes have risen again and again and are today 5 times as high.

A comparison between the three periods, before, during and after the so-called "land tax government," gives a clear picture of the importance of eliminating land speculation and unearned increment.



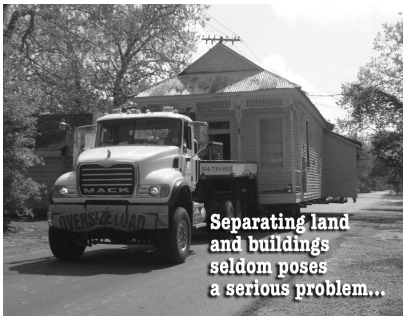
This statue, at the Agricultural College in Odense, Denmark, recalls the following passages from Henry George's book *Protection or Free Trade:*

Near the window by which I write a great bull is tethered by a ring in his nose. Grazing round and round, he has wound his rope about the stake until now he stands a close prisoner, tantalized by rich grass he cannot reach, unable even to toss his head to rid him of the flies that cluster on his shoulders. Now and again he struggles vainly, and then, after pitiful bellowings, relapses into silent misery.

This bull, a very type of massive strength, who, because he has not wit enough to see how he might be free, suffers want in sight of plenty, and is helplessly preyed upon by weaker creatures, seems to me no unfit emblem of the working masses.

Land Rent and Selling Price

In a free market, products exchange for a value equal to their cost of reproduction. Assets which cannot be reproduced, but yield an income (like a parcel of land, or a license to sell alcoholic beverages) are valued through a process called capitalization. This means that the asset's capacity to provide an income is compared to that of a capital good, which can be produced. Valuable parcels of land fit this category: they yield an income, but they are not produced by labor. So, the selling price of a parcel of land is based on a comparison between the potential income from that land and the amount of capital that would be needed to yield a similar income. For example, let's say that a piece of land yields an annual rent of $6,000, and the current rate of interest is 6%. By simple division we find that we would need to invest $100,000 in capital to yield the same income; that is the land's "capitalized rental value." This process is standard in the real estate business.



In many cases the income from a parcel of land increases faster than the profits from the ownership of capital. If the owner of such land agreed to sell it for a price based on its current income, she would forego the increased profits which would have accrued in the future. Because of this, land is almost always sold at a price that is higher that the capitalized rental value. How much higher? However much buyers are willing to pay, rather than go without those land parcels.

There is no way to predict with certainty what the potential profits of a site will be in the future, and therefore no way to calculate from any existing facts, the most anyone will pay for a parcel of land in the present. During "land bubbles," real estate prices can reach absurdly high levels.

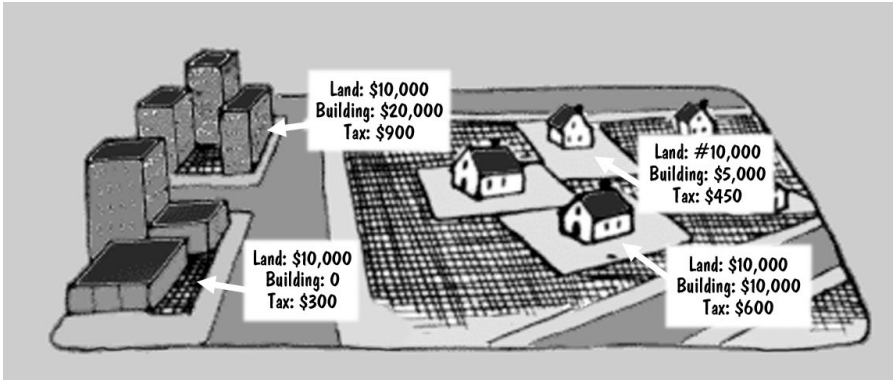
When the selling price of land in a particular area is appreciating each year by a greater amount, owners of unused land cannot resist the temptation to hold on to it. When they do, more businesses choose to downsize, rather than expand their productions. As the unemployed workers buy fewer products, the reduced demand reverberates throughout the economy and a recession is under way.

Land Value Taxation and Land Prices

If the entire rent of land were taken in taxation, there would be no rental income, nothing to capitalize, and no selling price. Land that yielded no income would not be worth buying. But, it would still be worth owning for the opportunity it provides to producers, who would still be willing to pay for its use. Therefore, a 100% tax on land rent would destroy the selling price of land; it would also destroy any profit that could be had from land speculation. But land would still have a rental value, as long as people were willing to pay for its use.

Henry George advocated collecting something less than 100% of the rent of land. He recommended that a small percentage, say 5%, should be left to the landowner, which would in turn be capitalized into a selling price (albeit a much smaller one). The advantage of this would be to ensure that free-market forces set the value of land, and to keep government out of the business of making land-distribution decisions. — *Mike Curtis*

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.



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 has the same land value — so the tax would be the same: $600, regardless of the use to which the land is put. So we see that, unlike the current system, land value taxation rewards development, penalizes land speculation and curbs sprawl!

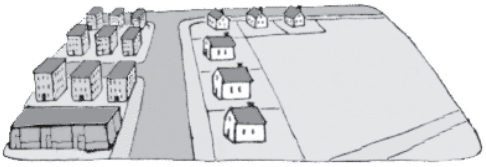
A Closer Look at the Law of Rent

ADDING A FEW SPECIFIC FACTORS can help us to understand how land speculation works in real life. Here is a model with five different grades of land. Workers are more productive on better land (each can produce more units of wealth) — because the best workers tend to win the competition for the best locations, where more capital is used. 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 number of workers. In this model there are four plots of each grade of land, and one of each four has been held out of use.

Let's further suppose that unemployment is a part of our economic model — and that society uses some of its tax revenues to ease the burden of poverty. Let's assume that out of 500 willing, able workers, 50 of them can't find jobs. We'll say that the return to labor and capital at the lowest-quality land in the chart (1 per day) equals the payment to "welfare recipients." Thus, 50 units per day will have to be taken in taxation and redistributed to the unemployed.



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	Unemployed workers: 50	
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
workers employed	150	120	90	60	30	Welfare cost	450
wealth output	750	480	270	120	30		1650
infrastructure cost	200	160	120	80	40	50	650



Now let's see what happens if we end land speculation, and all of the willing, able workers go to work:

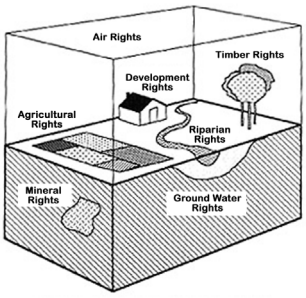
4 plots of each grade of land	5 units per worker/day; 50 workers per plot	4 units per worker/day; 40 workers per plot	3 units per worker/day; 30 workers per plot	2 units per worker/day; 20 workers per plot	1 unit per worker/day; 10 workers per plot	GUESS WHAT! By using the land efficiently and eliminating unemployment, the community can afford to provide infrastructure and services where the land is free, while spending less public revenue than before!	
plot 1	50 x 5	40 x 4	30 x 3	20 x 2	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	30 x 3	free	free	Totals	Change
# of workers	200	160	120	20	-	500	+50
wealth output	1000	640	270	40	-	1950	+300
infrastructure cost	200	160	120	80	-	560	-90

Henry George's Remedy: Is It Right? Will It Work?

Common Property in Land

"We must make land common property," Henry George declared. Some of his followers felt that he had made a tactical mistake with that statement. What did he mean by it? Was he a "commonist"?

Land, by its very nature, is common property — and our laws and traditions already go far toward recognizing it as such. Henry George proposed that the rent of land should be paid to the community. This payment would satisfy the equal rights of all other members of the community — without disturbing individual 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).



The concept of "conditional private property in land" is well-known to anyone familiar with modern laws concerning real estate. In legal terms, "selling a piece of land" is a *non sequitur*. What is transacted is a "bundle of rights" that attaches to a particular site. These rights could include surface rights, subsurface mineral rights, aquifer use rights, air-space rights, etc. When Henry George thundered "We must make land common property!" his fervor and bluntness unnerved some people — but he meant it. George insisted that we allocate the bundle of rights according to the moral basis of ownership. Society must grant secure land tenure, refuse to confiscate the products of labor, and "not sell the land for ever" — by collecting, for society, the socially-created rental value of land.

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.

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.

**This section contributed by Mike Curtis*

Equity (vs.?) Efficiency

The title to this section alludes to the two major criteria by which economists judge economic policies. Efficiency is simply the optimal use of available resources — the choice, among alternative uses of those resources, that results in the greatest overall satisfaction of desires.* But, of course, an efficient economic outcome is not necessarily equitable — some people's desires might be getting satisfied a whole lot more/better than others'. Equity, then, is generally seen as the balancing criterion. Are some people feasting while others are starving?

In general, the values of equity and efficiency are seen as being at odds. Most economists see things that promote efficiency, such as private property, limited government and incentive-oriented policies, as necessarily entailing a tradeoff with achieving the highest levels of equity.

Henry George's economic theory is notable in its refusal to accept this fundamental tradeoff. George contends that "justice is the highest and truest expediency." He claims to have articulated a policy solution that reconciles equity with efficiency — or, in other words, achieves full employment without sacrificing prosperity.

**One popular conception of this is the notion of "Pareto Efficiency," after the Italian economist Vilfredo Pareto, a contemporary of Henry George. A Pareto-efficient state is one in which no one can be made better off without making someone else worse off.*

Land Reform

When we talk about concentration in land ownership, it is crucial to distinguish between land *area* and land *value.* In the United States, the largest landholding entities, in terms of area, are oil and timber companies, holding many millions of acres. However, land in major cities is often worth millions of times as much per acre. Indeed, in terms of market value, the world's most valuable natural resource is not oil, or water or strategic minerals, but urban locations.

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 have long-term mortgages — and therefore they actually own only a small portion of their land's value. Still, many people are accustomed to seeing themselves as "landowners" — and resent any threat to their "property."

In "less developed" countries, especially in Asia 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 — which has often engendered bitter controversy — usually consists of breaking up large estates, often with compensation to landlords, and making small holdings available to tenants on 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 factors such as fluctuating populations, changes from generation to generation or the tendency of rural workers to move into urban areas. In many cases, land monopolization reasserts 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 has often been 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.

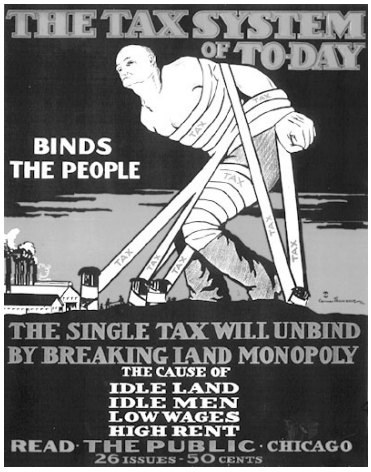
The Alternative: Land Value Taxation

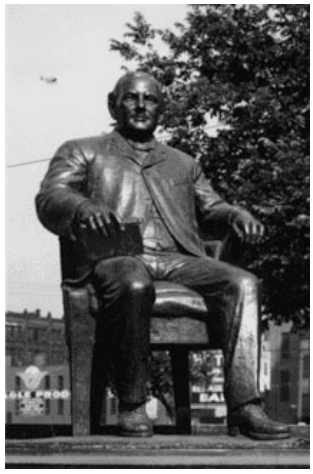
Henry George's remedy establishes equal land rights for all. It gives people the freedom to take as much or as little land as they can use — provided the obligation to society is paid. This enables the economy to progress under free conditions.

Henry George proposes to "abolish all taxation save that upon land values." (This has been called the "Single Tax.") Many nations already take some rent in taxation — directly, in the form of the real property tax. They would only have to change their modes of taxation to take it all. Many less-developed nations, however, lack systems for registering land ownership and assessing values. Establishing these procedures is often touted as the first necessary step to joining the modern world economy. A nation could modernize, while avoiding the modern world's chronic economic problems, by simply retaining the rent of land for public revenue.

We must realize that the present system of "property taxation" is a tax on real estate, and real estate is comprised of two very different elements: wealth (buildings and improvements) as well as land. The first step toward implementing the remedy would be to increase the levy on land and simultaneously decrease the tax on improvements.

Simply removing the tax burden on buildings would be an instrument of growth in both urban and rural economies — but George's remedy would not stop there. Its ultimate goal would be to remove all taxation on the production of wealth, substituting the collection of the full rental value of land for public revenue.





At the turn of the 20th century, the "Single Tax" movement was one of the most vital forces of the progressive era. Single tax Mayors and Legislators were elected in a number of states, most notably Mayor Tom L. Johnson of Cleveland. A statue of Johnson in Cleveland today shows him holding the book that inspired his political career: Progress and Poverty. *The poster at left advertised* The Public, *a Chicago newspaper published by Louis F. Post, the author and advocate who served as Assistant Secretary of Labor in the Administration of Woodrow Wilson.*

Public Rent Collection in Practice

The Historical Record

Nowhere yet has the principle of the public collection of land rent, with abolition of all other taxes, been fully applied. Partial applications indicate results commensurate with the degree of application. The history of all such efforts is presented in *Land Value Taxation Around the World*.[11] The following remarks are excerpted from the introduction to that volume by its editor, Robert V. Andelson.

In 1955, when the first edition of this book came out, land-value taxation seemed to be advancing steadily if not dramatically; it was spreading at the local level in Australia and New Zealand, and its extension in Denmark was backed by all three parties that made up the coalition government. By 1997, the year of the second edition, serious reversals had occurred in New Zealand and Denmark, the nations where it had seemed most firmly entrenched, and there is now a definite possibility that what little remains of it in Denmark is about to be discarded. Although nowhere actually rescinded in Australia, it had been minimized there by growing reliance on users' charges....

Meanwhile, public capture of economic rent had become a major feature of several countries on the Pacific Rim, and is being adopted ever more widely on the municipal level in the state of Pennsylvania. Now that Scotland has its own parliament, land reform is high on its agenda, and efforts are being made to point that reform in the direction of land-value taxation. The idea has also gained strong support among several of Russia's most prominent political leaders, and has been endorsed without dissent by the Union of Russian Cities at a conference representing eighty of that nation's largest metropolitan jurisdictions.

True, the system has in some few cases been abolished, but never because it was a failure. In Denmark, the explicitly Georgist Justice Party was voted out of Parliament and the advance of land-value taxation halted, but this happened at a time of unprecedented prosperity and for political reasons that had nothing to do with land-value taxation as such. In New Zealand, it was done away with in the three largest cities in which it was in place, but this came in the wake of major jurisdictional reconfiguration, and was never submitted to the voters for approval. In various smaller municipalities, where the public had an opportunity to vote on whether to reject or retain it, the overwhelming decision was to retain.

Hence, to those who share George's vision, retrogression is not unalloyed by gains. Yet it must be stressed that these gains are slender, tentative, and by no means secure. In point of fact, many of the "success stories" hailed... in Georgist literature have been quite exaggerated. The implementation of land-value taxation has really been extremely modest, and its impact, where genuine, all too often blunted by countervailing policies, usually at other levels of government.... sober realism [is better] than naive complacency.

Partial vs. Full Application

Modern reformers have taken George's advice to use existing systems of property taxation to implement the remedy. "Two-rate" property tax reformers seek to raise the tax rate on land while lowering the tax rate on buildings. Wherever this has been done, it has been followed by a surge in new construction and a revitalization of the local economy — to a greater or lesser degree, depending on the degree of the shift. The two-rate proposal is offered as a revenue-neutral shift; that is, it proposes a shift to greater reliance on land values to raise the same amount of revenue.

In *Progress and Poverty* George described how the public collection of land rent would decrease, and eventually remove, the selling price of land. The selling price of land depends on the annual rent that the owner can collect; a tax on rent would reduce that amount — and thus, all else being equal, lower the selling price. Experience has shown, however, that when cities adopt a revenue-neutral shift to higher taxes on land values, their land prices tend to go up! Does this mean the formula is wrong? Not at all; it simply means that all else is not equal. The tax shift places a greater burden on holding land idle, and reduces the penalty on buildings. These incentives stimulate construction, bringing more people and economic activity, and making locations within the city more valuable. If these developments increase the rent more quickly than it is taxed away, then land prices go up. This gives the city an opportunity to further enhance prosperity by raising its tax rate on land, and lowering its rate on buildings. In Pittsburgh, this was done many times after the initial shift to the graded tax in 1914. However, once the reform has increased a community's land values, its private landowners want to reap the reward. Therefore, a vigilant political and educational effect is called for, to demonstrate the connection between the two-rate tax policy and local prosperity.

Land value tax will not decrease land prices unless it recovers a greater portion of the land rent than is created by the incentive effects of the tax. By stimulating a local construction boom, LVT can raise local wages temporarily. But for land value taxation to fulfill its promise of raising the general level of wages, it must be applied to a sufficient degree to raise the margin of production.

Specific Examples

Denmark — Denmark collects much revenue from taxes on incomes and products. However, she has a heritage of land value taxation that still has some effect on the national economy. Local governments collect a *grundslyld* (ground rent) averaging 2.4% of assessed value, and a 1% property tax at the national level. Unfortunately, LVT had more influence in the past. In the 1960s, Denmark used a land value increment tax, and offered a national farm-lease program.

Australia — Like Denmark, Australia has a long history of land value taxation practice, which achieved good results, but has been eroded by political pressure. Still, 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. Many studies show the efficacy of LVT in Australia, and good land assessment practices are maintained.

Norway — Revenues from Norway's sizable oil exports have been collected and administered by the national government. Some of the oil royalties have been invested in education and public works, but more has been invested in a national fund, whose value has been as high as three-fourths of the country's GDP. Norway boasts the world's highest standard of living.

Canada — Western Canada had a long history of exempting urban and rural improvements from taxation, but in recent years has reverted to conventional forms of property taxation. Alberta obtains considerable revenues from oil leases, rentals and royalties (a form of land rent, which has made possible a "Heritage Fund").

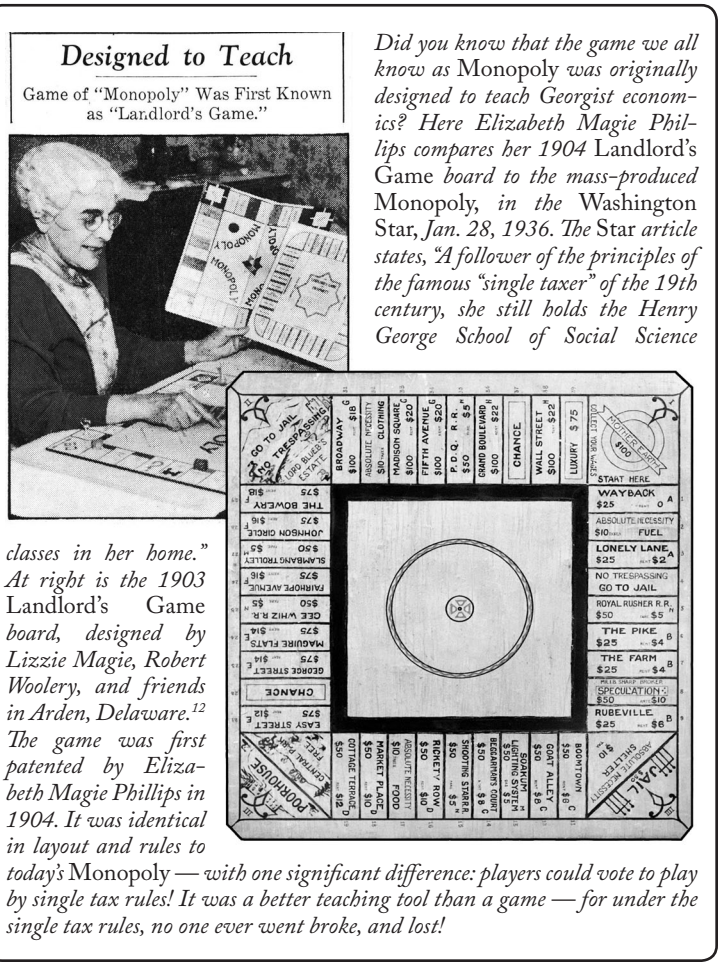
Two-Rate Property Tax Reform — Seventeen jurisdictions in Pennsylvania now apply what is termed the "graded tax plan" whereby land is taxed at a higher rate than improvements. This was an important factor in Pittsburgh's "Renaissance II" in the 1980s. Unfortunately, however, after a reassessment in 2003 inaccurately penalized many small homeowners, Pittsburgh abandoned the two-rate tax. Nevertheless, other Pennsylvania cities have undertaken the two-rate shift with great success. The city of New London, Connecticut has recently adopted this reform.

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. Speculation was eliminated, and California's preeminent 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 beyond public expenses, and has made possible a per capita dividend and a cancellation of the income tax.

Fairhope, Alabama — This is a colony operated by the Fairhope Single Tax Corporation which owns much of the land in Fairhope and leases it to its residents. With the economic rent it collected, the corporation paid property taxes levied by the state, county and city, and used the remainder for public improvements. Fairhope far outstripped its neighboring towns in growth. Unfortunately, internal political pressure has led the Corporation to discontinue this effective rent-collection policy.

The Three Ardens, Delaware — In Arden, Ardentown, and Ardencroft, the land is leased to its users, and no taxes are collected on improvements. Arden's land rent fund pays real estate taxes for its residents, and a portion of it is sometimes used for maintenance of public improvements. These towns are well-known as beautiful residential communities. However, land prices in Arden are as high as those in neighboring communities that are equally desirable, showing that the community does not collect anywhere near the full rental value of land.



Did you know that the game we all know as Monopoly *was originally designed to teach Georgist economics? Here Elizabeth Magie Phillips compares her 1904* Landlord's Game *board to the mass-produced* Monopoly, *in the* Washington Star, *Jan. 28, 1936. The* Star *article states, "A follower of the principles of the famous "single taxer" of the 19th century, she still holds the Henry George School of Social Science classes in her home." At right is the 1903* Landlord's Game *board, designed by Lizzie Magie, Robert Woolery, and friends in Arden, Delaware.[12] The game was first patented by Elizabeth Magie Phillips in 1904. It was identical in layout and rules to today's* Monopoly — *with one significant difference: players could vote to play by single tax rules! It was a better teaching tool than a game — for under the single tax rules, no one ever went broke, and lost!*

Frequently Asked Questions

Should 100 per cent of the rent be collected? Henry George suggested 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. About 5% would be a reasonable commission for their services; thus there would be a 95% tax on rent. This method, said George, would save the government the function of letting out lands.

Would rent be a sufficient source of public revenue? The total rent of land in the United States has never been calculated. (Irregular assessment practices do not give the true value of land. Rent is also disguised in numerous ways: for instance, it figures largely in returns to stocks and bonds.) Some say that rent would be insufficient for total budgets, federal, state and local. But it is to be expected that the Single Tax would on the one hand produce great economies in government, and on the other hand result in greatly increased production of wealth, with an increase in all returns — rent, wages and interest. And so (if it does fall short at present) within a short time rent should meet all legitimate needs of government. There are those who say rent might exceed the needs of government. If so, the surplus could be used to wipe out the public debt and the balance distributed as a dividend to all citizens. In any case, even if the rent fund were not sufficient to cover the cost of all public services, if it is the most appropriate source of public funding it should be fully exhausted before other taxes are resorted to.

How would rent be apportioned? With only one tax, how would it be divided 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 US 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.

There has been increasing debate in recent years over the disposition of transboundary resources. Debate is going on over nations' rights to claim minerals on the ocean floor. The control of rivers that flow through the territories of many nations is a deeply sensitive issue. The advent of global atmospheric pollution has forced people to see the earth's atmosphere as a resource that is shared by all. Extending the concept of the public collection of land rent to the international sphere can provide a peaceful and progressive way of resolving intensifying conflicts over resource access and use. Treaties concerning common property in Antarctica, outer



Father Edward McGlynn, a staunch supporter of Henry George's candidacy for Mayor of New York in 1886, ran afoul of the Catholic heirarchy for his outspoken views on land reform. Summoned to the Holy See to answer charges of heresy, McGlynn refused to go — and was excommunicated. Years later, he wrote a doctrinal statement articulating Henry George's remedy; the Church found nothing heretical in it, and McGlynn was reinstated. Here, the popular political-satire magazine Puck *pokes fun at George and McGlynn and their enormously popular New York meetings of the "Anti-Poverty Society."*

space, and the world's oceans have taken the first, halting steps in this direction.

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? In much the same way as it is done today by real estate dealers and appraisers. The value of land is customarily 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.

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? 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.



Here is another image from Henry George's 1886 Mayoral campaign. New York City's United Labor Party drafted him as their candidate — by securing, at George's request, 30,000 signatures calling for him to run! George ran well, outpolling Theodore Roosevelt, but he lost to Abraham Hewitt, a Democrat drafted by the Tammany machine to put back the threat of George. Puck *frequently lampooned George during this period. Here he is depicted hefting the Labor world with nothing more to stand on than cloudy "theories".*

A rich woman has a large mansion; a poor widower has a small house on an adjoining lot with the same value. Is it right that they both pay the same tax? There is no reason in justice why the community should not charge poor widowers as much for monopolizing valuable land as it charges rich women. In either case it is a special privilege which should be paid for. In our sympathy for the rare widower in this situation, let us not forget the hosts of widowers who not only do not live next to mansions but have no place to live but by some landlord's consent. Under the Single Tax, they would find it much easier to get a place to live than they do now.

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

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

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? 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 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.

Solving the "Urban Dilemma"

American cities are in dire financial trouble. In fact, they are taxing themselves out of existence. Their tax bases are shrinking, their obligations are increasing, and every time they raise taxes, they alienate business owners or individuals, many of whom stop producing (and stop paying taxes altogether). Many of the political leaders of those cities believe they are approaching the point where, if they raise tax rates, so many taxpayers will leave that the cities will actually receive less revenue.

Every city has, within its borders, sufficient values to finance its municipal operations — without driving away businesses and well-to-do citizens. Cities need only collect the land rent that is currently going into the hands of land speculators.

The value of urban land is a precise measure of the success of local government in providing the services that attract people and business to that city. Taxes on sales and on wages indirectly lower the rents on urban land — by making businesses flee to lower-tax areas. By requiring urban landowners to pay the full rental value of the land they hold, cities can eliminate land speculation. Getting rid of land speculation would increase employment and production while simultaneously increasing the tax base. No other revenue source has this effect.

When the rental value of land is the tax base, revenue is based on the value of opportunities and services rendered to each site. Because it makes each parcel of land profitable only when put to productive use, the land tax delivers a compelling incentive for the redevelopment of cities.

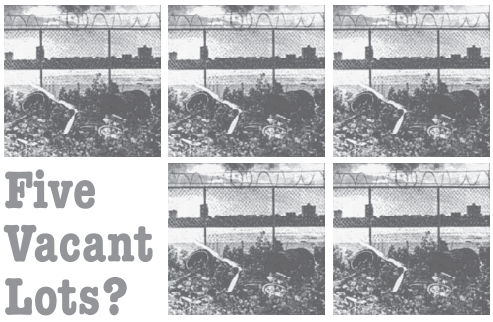
Many cities have sought to resolve their urban tax dilemma by implementing various kinds of "enterprise zones" — attempting to bring development into depressed areas by temporarily abating some of the taxes on businesses within those areas. The proposals recognize the burdensome nature of taxation in cities today, but do little to solve our urban problems. If an enterprise zone plan succeeds, the main beneficiaries are the collectors of vastly appreciated land values within the zones. Because land values are not sufficiently taxed, enterprise zones tend to become public subsidies for real estate speculators — and create few new jobs. In addition, enterprise zones have seldom stimulated any significant new construction outside of the specific tax-abated areas. Cities that have utilized a higher tax on land values, on the other hand, have experienced city-wide surges in building.

Readers of Henry George's "Story of the Savannah" will note George's observation that cities are, by their very nature, enterprise zones — and only our backwards taxation policies rob them of their potential.

Would you invest in One Building?



Or



Five Vacant Lots?

Let's say that we can purchase this townhouse for $150,000 — $120K for the building and $30K for the lot beneath it. Or, we could buy five vacant lots at $30K apiece. Which would be the better investment?

We'll use the following ground rules: The building's replacement cost increases annually at the general rate of inflation, which is 3%. The building's rental income is $1,000 per month. Property taxes amount to 2.5% of the total real estate value, and maintenance/management costs another 5% per year. And land values? Ah, land values: they have been increasing by 10% per year.

One Building:

Annual rental income	$12,000
Building Repl. cost increase (3% of $120K)	3,600
Land value increase (10% of $30K)	3,000
Total Annual Increase	$18,800
Expenses	
Maintenance/management (5% of $120K)	$6,000
Property tax (2.5% of $150K)	3,750
Net Profit	$9,750

Dividing net increase by total investment ($150K) = 6.5% return on investment

Five Vacant Lots:

Total Land Value: $150,000	
Total Annual Increase	$15,000
Expenses	
Property tax (2% of $150K)	3,750
Net Profit (Return on investment: 7.5%)	$11,250

To yield the same revenue from a tax on only land value, the rate would be 10%. The building owner would save $750, while the community would recover the entire gain in the value of the vacant lots.

Land Rent and the Environment

Today there is great concern over the environment — pollution of land, air and water, industrial wastes, over-development, destruction of nature. With the advent of global environmental problems, environmentalism is no longer a local concern. "NIMBY" (not in my back yard) is no longer possible in many cases. There is widespread fear that the earth couldn't stand the strain, if the developing nations were to create a comparable level of pollution, per capita, to that of the Northern industrial nations.

Much environmental devastation is caused by our system of land tenure. As a community grows, large areas are held for speculation. This results in "leapfrog" development, with people moving further out to find affordable land. Thus all the facilities needed for a growing population are stretched out and made more expensive — transportation, utilities, water supply, garbage disposal, markets and other requirements.



If this condition were corrected, people and industries could move out from the centers of population at a more normal pace, making unnecessary the waste and expense, and a premature invasion of nature. The transportation sector now accounts for about 70% of the oil use in the United States. Tremendous amounts of energy conservation that would result from "infill development," reversing the march of suburban sprawl. Efficient public transportation could be funded by the very land rents that it would help to create.

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

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

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

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

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

A public revenue system which captures resource rents and does not penalize capital equipment would provide incentives for the development of "micropower" — equipment which would allow individual households to utilize the most appropriate renewable energy sources in their particular location.

Environmentalists need to learn the remedy of the collection of land rent for public revenue as a way to create the economic incentives that will allow us to tackle our environmental problems.

What Happens when Communities DON'T Collect the Rent?

Henry George's thesis is that the public collection of the rent of land leads to vigorous, sustainable prosperity — all the benefits of "association in equality." We can find evidence for its validity in the negative as well as the positive. What about those communities that fail to collect the rent of land, leaving it in private hands? Do they become worse off?

We have noted with pride the good effects achieved by many Pennsylvania cities by increasing property tax rates on land and lowering them on buildings. That was the good news — the bad news, though, is that for many years the political trend in the United States has been great antipathy toward the property tax, and many regional "tax revolts" have aimed at getting it reduced. The most famous of these was California's Proposition 13, which was enacted by referendum in 1978. Tax rates were capped at 1% of property assessments as of 1978, until properties were sold. The result was a huge increase in California's land prices, and a decline in every other index of economic health.

New Mexico is little more than a Third World Nation masquerading as an American state. Since before statehood, an oligarchy of giant landowners, in the million-acre class, have dominated state policies and kept taxes off their vast lands. New Mexico raises a lower fraction of its state and local revenues from the property tax than any other state. Its economic base, such as it is, is mainly the product of what Senator Albert Beveridge of Indiana called "the free coinage of western Senators." New Mexico gets far more net federal dollars (spending less tax payments) per capita than any other state. In 1998 its "Federal Balance of Payments" was +$3,697 per capita, compared to -$2,380 for Connecticut, a "donor" state (*Wisconsin Taxpayer*, p.10). That and God's gift of scenery are about it. In "The Land of Enchantment," The Enchanter has cast a sleeping spell on its local enterprise while its Treasury sups on the nations' taxpayers, and its cattle graze and breed at sweetheart rents on Federal lands. New Mexico bids fair to be the most parasitic state. It has the highest poverty rate and, in its wide open spaces, nearly the highest rate of violent death in the US. So much for southwestern pioneer vigor. — Mason Gaffney[13]

In the 1998 book *The Losses of Nations,*[14] Mason Gaffney and Richard Noyes documented a consistent correlation between greater reliance on property taxes (as opposed to sales and/or income taxes) and higher income levels. The property tax was once the principal source of money to fund state and local governments. It provided some 80% of all state-local revenue until the early 1920s, but by the start of the 1980s it had dwindled to only about 30%. Some states shifted later, or less, than others, however. New Hampshire actually never made the shift; it still relies on the property tax for almost two-thirds of its state and local revenue. New Hampshire is the only state in the Union where more than half of all government revenue comes from the property tax — and its economy has been growing twice as fast as its neighbors, Maine and Vermont.

The table below shows the five highest and five lowest states in terms of the portion of each taxpayer's state/local taxes made up by the property tax.

The states with higher incomes have higher taxes overall, but the important fact here is the ratio: higher-income states collect a higher proportion of state and local tax revenue from property taxes.

Gaffney and Noyes conclude their book by saying

There is a correlation between the relatively heavy use of property taxes, as a part of the state/local tax mix, and high per capita incomes. This invites one final question: How much larger would these differences be, and how much better the results, if one end of the fiscal spectrum were socially-created land rents alone, clearly distinguished from the other end — the labor and industry of individuals?

States Ranked by Property Tax Per Capita ($)

	Property Tax	All Tax	Ratio	PI per cap.*	PI Rank		Property Tax	All Tax	Ratio	PI per cap.*	PI Rank
New Hampshire	1344	2098	.64	21.9	8	*Louisiana*	277	1654	.17	15.9	45
New Jersey	1268	2926	.43	26.1	2	*Arkansas*	261	1518	.17	15.6	46
Connecticut	1198	3061	.39	27.2	1	*Oklahoma*	243	1635	.15	16.4	42
New York	1178	3534	.33	24.1	3	*New Mexico*	217	1788	.12	15.5	49
Alaska	1069	3835	.28	24.3	7	*Alabama*	174	1435	.12	16.5	41
MEAN	1211	3091	.41	24.3	4.2	MEAN	234	1606	.15	16.0	44.6

*Personal Income per capita, in $thousands

Rent in Developing Nations

The world's industrial nations do manage to capture some of their aggregate rent through various means, such as "capital gains" taxes, estate taxes or real property taxes (although these have been considerably eroded in the United States). Developed

nations also use governmental resources to apply macroeconomic "fixes" to mitigate the disastrous swings of the boom/bust cycle.

To see the results of not collecting ***any*** land rent for public revenue, we need to look at the Third World. Many Less Developed Countries (LDCs) bear heavy foreign debt burdens, and are drawn to compete for foreign investment. A vicious cycle ensues, which erodes their tax base. In order to "stay in the game" (and possibly secure debt relief), these nations must present a more attractive tax- and regulatory climate than their competitors, who are in similar straits. The result is a starvation of public services such as education, roads, communications and medical care: all the things a community needs for economic development.

The "Resource Curse"

Some LDCs have received windfalls in the form of the discovery of valuable mineral resources, particularly oil. Would not the rents from these resources, which accrue to national governments, allow them to invest in their own development and climb out of poverty? Yet, sadly, in many nations this has not happened. Instead, resource royalties have been squandered in un-economic public works, cronyism, and military spending. This phenomenon has happened often enough to have been given a name: economists refer to the related pathological syndromes of the "Resource Curse" and the "Dutch Disease." In the former, windfall profits from natural resources tempt corrupt politicians to simply spend on consumption; industrial decline follows. The Dutch Disease is named after the problem faced by the Netherlands after its discovery of natural gas in the 1970s. A big increase in gas exports led to a rising value of Dutch currency. This led to a decline in other exports. Then, more capital resources went into the more-profitable gas industry, which further heightened the decline in other industries. This process has been seen in other petroleum exporting countries such as Venezuela, Mexico and Nigeria.



Is there a remedy for the Resource Curse? The experience of Norway shows that there can be. Norway is a large exporter of oil, and currently enjoys the highest per-capita standard of living in the world. Wages in other industries were kept relatively high by the use of a centralized bargaining system, rather than leaving workers to bargain with each individual firm. Oil revenues were invested in public education, and were used for macroeconomic stimulus during downturns. Also, oil revenues were released into the economy sparingly, so as not to encourage inflation. Most of the revenues were invested in a national fund, whose worth is currently nearly 75% of Norway's gross domestic product.

It is interesting to note that in recent years the existence of this large fund has tempted Norwegian politicians to release the funds into the economy more rapidly than had previously been thought prudent. The result has been increased inflation and economic volatility. The Norwegians had managed to avoid the "Resource Curse" in the special case of oil, but had not been able to stop the underlying boom/bust cycle. Henry George's analysis shows why: the injection of oil revenues into the economy must serve, in time, to increase land values. If those rents are not collected for public revenue, the boom/bust cycle is the natural result.

Indeed, the "Resource Curse" does not apply just to oil, or to extractable resources, or to any particular kind of resource, but to all land. This is implied (but not explored) in the literature about this phenomenon. Economist Douglas Yates, for example, describes the phenomenon of the "*rentier* state", in which the Resource Curse "embodies a break in the work-reward causation... rewards of income and wealth for the *rentier* do not come as the result of work but rather are the result of chance or situation."[15] (An over-reliance on un-earned rental income, as George explains, is the basic force that pushes economies into recession.) Similarly, Norwegian economist Erling Røed Larsen observes that "dealing with the Dutch Disease involves mostly macroeconomic policy instruments, [while] avoiding the Resource Curse may include more fundamental elements of society.... Avoiding the curse, the literature says, reduces to preventing rent seeking."[16]

It has been argued that the resource curse only operates when a nation depends on a single windfall resource — and that, therefore, the phenomenon of the resource curse cannot occur in a country with diverse natural resources and decentralized ownership thereof. However, the development of mortgage-based derivative securities, whose values came from residential land values, provided a mechanism that turned the United States's diverse, middle-class landowning patterns into just as tempting an economic drug as Nigeria's oil. The Great Recession of 2008 and beyond should serve as a warning that wherever land and resource rents go into private hands, there's no avoiding the "resource curse."

Taxes: What Are They Good For?

Although people usually do not like taxes, and governments can become so corrupt and misdirected that people revolt against paying taxes at all, most recognize the basic need for some public services, funded by some sort of taxation.

The free market is good at allocating goods and services that producers compete with each other to supply. Things are not allocated well when monopoly disrupts the process. But there are some things, real benefits to the entire community, which cannot be had without monopoly; they are monopolies by their very nature. Consider roads, for example. A highway is generally built along the most direct route available — what incentive is there to build another road to compete with it? If the highway were privately owned, the owner could charge "whatever the traffic would bear" for its use. Rather than award individuals such a huge privilege, most communities build roads collectively, financing them through taxation.

Henry George believed that businesses that are monopolies by nature should be run by the government, not left in private hands. It was George's conviction that the primary function of government is to secure the rights of its citizens — including labor's right to the wealth it produces.

The Canons of Taxation

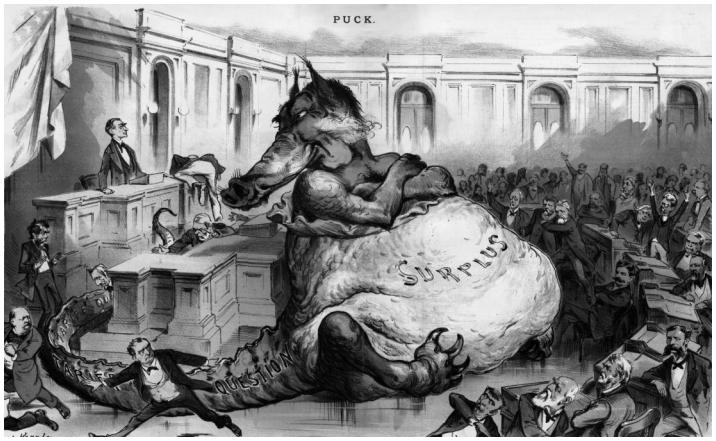
The classical economists, with their powerful common sense, outlined four criteria of a good tax. Their skill is evident in the simplicity and comprehensiveness of the following provisions:

1) Taxation should bear as lightly as possible on production. The very word "tax" suggests a burdensome load. Taxation is an allocation of wealth, which is produced by labor, to the needs of the community; nobody benefits if taxation inhibits production!

2) It should be easy and cheap to collect, and fall directly on the ultimate payer. If great resources must be devoted to the collection of taxes, they are simply wasted! Indirect taxes (such as sales taxes, and tariffs) are imposed on sellers and importers, yet ultimately paid by consumers. Not only are such taxes unwieldy and cumbersome; they also tend to be regressive — weighing heavier on those with lower incomes.

3) It should be certain. The more complex the rules of taxation are, the more they can be subverted and evaded. As the tax code becomes a hieroglyphic that can be understood only by specialists, only those who can afford to pay the specialists can take advantage of its loopholes!

Also, the production of wealth fluctuates from year



to year, so if production is taxed, the amount of revenue cannot be predicted with certainty. Revenue shortfalls have to be met by means of public borrowing.

4) It should bear equally, so as to give no individual an advantage. We have seen how regressive sales taxes fail in this regard. The conventional standard of tax fairness is "ability to pay." People with higher incomes are able to pay a greater part of the tax burden. The progressive income tax, for example, is based on ability to pay; in fact taxes are called "progressive" if they bear more heavily on those with higher incomes. But, if the "ability to pay" principle makes no distinction between earned and unearned income, is it fair? If individuals are more wealthy because they are efficient and honest producers, then taxing them according to their ability to pay burdens production, violating rule number one! A truly equitable public revenue system will not confiscate the legitimately produced wealth of some while allowing others to collect unearned incomes. The alternative principle of "benefits received" achieves fairness by levying taxes according to the value of the advantages people have been given.

Broad-Based Taxation vs. the Single Tax

The favored public revenue strategy today is to make taxation "broad-based" — that is, to spread it out over as many different sources as possible. 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.

Can a tax on land values be shifted?

Taxes on commodities are usually passed on to the consumer in higher prices. What is to stop landowners from doing the same thing? Why can't a landowner increase the rent charged to tenants, to pay the land value tax and still collect the same net rent as before?

Remember: 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 their price. If the new price meets consumer resistance, the supply of that product is checked.

But a tax on land value does not affect either its cost of production (it is not produced) or its supply (it is fixed). Thus its price is not increased (for it is already 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.

We Don't Need Any Stinking Taxes!

When something stinks, it's unpleasant, harmful, disagreeable, disgusting, and foul. That describes taxes on wages, capital, spending, consumption, exchange and production. These are stinker taxes because they forcibly take what is properly ours. These stinky taxes raise prices and reduce production and investment. They misallocate resources. The economic waste caused by stinky taxes in the US is more than a trillion dollars per year. These taxes stink not only because of the force and waste, but also because such stinky taxes are unnecessary.

Stinker taxes do finance services we want, such as streets, security, and schools. But we can get the same goods with sweet-smelling revenues. Civilization is not an excuse for stinky taxes. We don't need any stinking taxes!

A hotel does not ask what your income is, or the value of your personal possessions. It does not add a surcharge at the stores inside the hotel. These charges would violate privacy, and they would cause less business. The room is more valuable because of the collective services, so the guests are willing to pay for that added value.

A condominium likewise provides civic services such as security, recreation, parking, landscaping, and community meeting places. The co-owners pay assessments related to the value of their unit, but unrelated to their income, spending, or personal possessions. The assessments don't stink, because they pay for wanted benefits, and there is no penalty for having more income, spending, or possessions.

Governments could eliminate stinking taxes if they just copied what private communities do. Instead of stinky taxes on sales, income, and buildings, they can charge an assessment based the value of the site. Homeowner associations and condominiums call these 'assessments' rather than taxes because in effect the members are paying a market rental, unlike a stinky arbitrary tax. If government calls this a property 'tax' or land-value 'tax,' it would still be in substance a benefit-based assessment with no economic burden.

Likewise, a pollution 'tax' is a tax in form but not in substance, because in reality, a pollution charge compensates for damages. What stinks is the pollution, not the compensation.

Ground rent doesn't stink, because it is already and always there. Unlike arbitrary stinker taxes, that make production hide, shrink, or flee, tapping the rent does not make land disappear.

Taps on pollution and land rent are better than neutral. They smell sweet. Tapping polluters provides rightful restitution. Tapping landowners prevents landowners reaping where they did not sow. Tapping the rent prevents speculative real-estate bubbles. Sweet!

Why make a big stink with taxes, when we can tap sweetly? All the public revenue we need can be tapped from ground rent, user fees, and penalty payments. That's why we don't need any stinking taxes! — *Fred Foldvary*[17]

When terms are used ***synonymously,*** that suggests that they mean the same thing. According to the *American Heritage Dictionary*, resources are "things that can be used to advantage" or "available capital; assets." Factors are things that "actively contribute to an accomplishment, result or process." Does the choice of terms indicate a particular attitude toward the productive process?

Certainly the factors of production are scarce, in the sense that one cannot create stuff out of thin air, or accomplish work instantaneously. But we shouldn't make too much of that truism. Normally when things are considered scarce, their price goes up and they tend not to go to waste. Yet, the price of labor — wages — keeps tending downward, so we can't be running out of workers. The rate of interest (minus premiums for inflation and risk) hovers between 1 and 2%. And every major city has lots of highly valuable pieces of land that are idle, or grossly under-used.

Resources (or Factors of Production) Are Scarce

Resources
Inputs used in the production of the goods and services that we desire. Also called factors of production.

The scarcity concept just described arises from the existence of scarce resources, or simply resources, for short. **Resources** can be defined as the inputs used in the production of those things that we desire. When resources are productive, they are typically called *factors of production.* Indeed, some economists use the terms *resources* and *factors of production* synonymously. The total quantity, or stock, of resources that an economy has determines what that economy can produce. Every economy has, in varying degrees, vast amounts of different resources, or factors of production. Factors of production can be classified in many ways. One common classification scheme distinguishes natural, human, and manufactured resources.

What about location value? Everyone knows that location is the greatest (as well as the second and third greatest) determinant of land value. Here, it is explicitly left out. Hence it is not surprising that land would be thought of as the least important factor. It brings to mind an interesting question, though: if the value of location isn't part of "land as a resource" then where ***does*** it come in?

Land
The natural resources that are available without alteration or effort on the part of humans. Land as a resource includes only original fertility and mineral deposits, topography, climate, water and vegetation.

NATURAL RESOURCES = LAND AND MINERAL DEPOSITS

Basically, **land** with its inherent mineral deposits is the natural resource we think of most often. The original fertility of land is also a natural resource. Some land can grow phenomenal amounts of crops without any addition of fertilizer; other land is incapable of growing anything in its natural state. Today, some economists contend that natural resources are often the least important factors of production in an economy. They believe that what is more important is the transformation of existing natural resources into what is truly usable by humans. That transformation requires the other types of resources— labor and capital.

Labor
Productive contributions of humans who work, which involve both thinking and doing.

HUMAN RESOURCES = LABOR

In order to produce the things we desire, a human resource must be used. That human resource consists of the productive contributions **of labor** made by individuals who work—for example, steelworkers, ballet dancers, and professional baseball players. The contribution of labor to the production process can be increased. Whenever potential workers obtain schooling and training and whenever actual workers obtain new skills, labor's contribution to productive output will increase.

There is fudging going on here. Labor is defined as "the productive contributions of humans who work." The vivid examples in the text leave us with the impression that the labor factor is the people who work for a boss, and collect a paycheck — not those who make decisions and take risks. Yet the definition on the left includes "both thinking and doing."

Traditionally, discussion of the factors of production leads naturally to discussion of the ***distribution*** of wealth among those factors. However, labor's contribution to productive output has been increasing steadily for two centuries, while wages have tended to fall. You'd think that might be worth mentioning here — but this text obscures, whenever possible, any logical connection between production and distribution.

Why is the "fourth factor" emphasized like this? It gives the impression that entrepreneurship is superior to the other three. That connotation is reinforced in the text: entrepreneurship is a ***special*** kind of human resource; those who do it are bold, dashing risk-takers, without whom "no large-scale business organizations could operate." Who says there is no romance in economics?

Although there is a huge difference in emphasis, no clear reason is offered for why these characteristics distinguish entrepreneurship from labor. Nevertheless, laborers are said to receive wages; entrepreneurs receive profits. But if labor involves both doing and thinking, as we are told above, then why the separation? Why isn't entrepreneurship just the "thinking" part of labor?

Here is a clue to the difference. The paragraph on labor above mentions ***production*** five times. Labor ***produces*** the wealth that makes the economy go. Odd, then, that the entrepreneur's task is "to think of things that could lead to a monetary benefit." Could it be that some of these monetary benefits ***do not*** come from production? One very important example of that is the location value of land — which, as we saw, this text has carefully excised from the definition of land as a factor of production!

Capital
All manufactured resources, including buildings, equipment, machines, and improvements to land.

MANUFACTURED RESOURCES = CAPITAL

When labor is applied to land to grow corn, for example, something else is used. Usually it is a plow or a tractor. That is to say, land and labor are combined with manufactured resources in order to produce the things that we desire. These manufactured resources are called capital, which consists of machines, buildings, and tools. Additionally, capital consists of improvements to natural resources, such as irrigation ditches.[1]

Another Human Resource = Entrepreneurship

Entrepreneurship
The fourth factor of production, involving human resources that perform the functions of raising capital, organizing, managing, assembling other factors of production, and making basic business policy decisions. The entrepreneur is a risk taker.

There is, in effect, a fourth type of input used in production. It is a special type of human resource; it consists of entrepreneurial ability, or entrepreneurship. Entrepreneurship is associated with the founding of new businesses or the introduction of new products and new techniques. But it means more than that: it also encompasses taking risks (possibly losing large sums of wealth on new ventures), inventing new methods of doing common things, and generally experimenting with any type of new thinking that could lead to a monetary benefit.

Without entrepreneurship, virtually no large-scale business organizations could operate. Clearly, entrepreneurship as a human resource is scarce: not everyone is willing to take risks or has the ability for successful business decision making.

We see the classification of resources in Exhibit 1-1.

"Entrepreneur", from the *American Heritage Dictionary:* "One who organizes, operates, and assumes risk for business ventures." It's from the Old French, "to undertake," from Latin *inter*, between, and *prendere*, "to take." The Indo-European root is *ghend*, "to take or seize."

[1] Improvements to human resources are also possible, of course. When this occurs, we say lhat human capital has been improved.

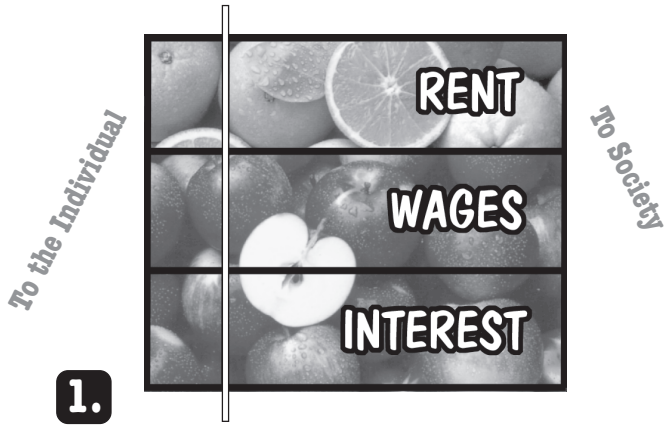
EXHIBIT 1-1
RESOURCE CLASSIFICATION. We can arbitrarily classify resources, or factors of production, into those that are natural, human, and manufactured. We have denoted specific names within those three classifications.

Natural Resources	Human Resources	Manufactured Resources
Land	Labor and Entrepreneurship	Capital

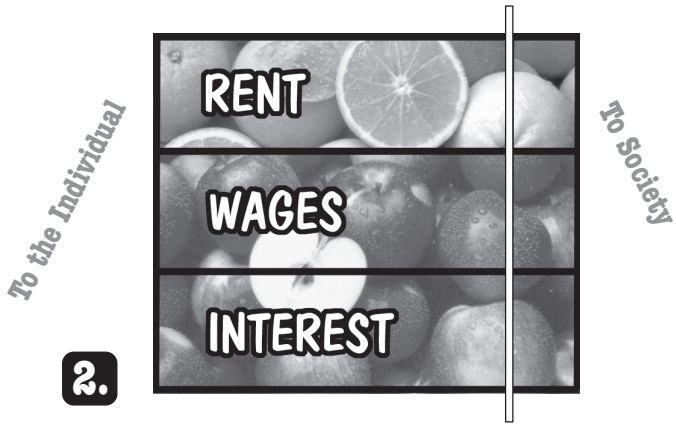
We could also ***arbitrarily*** classify factors into those that are wet, dry or damp. The three-factor scheme is not arbitrary; land, labor and capital are clearly separable, mutually exclusive sets. That makes them suitable for discussing the distribution of wealth in society. Here, we have a very different scheme of things, in which the productive factors exist in order to be manipulated by profit-maximizing entrepreneurs. (Hence the shadowy implication that labor — "human capital" — ***is*** the laborer.) The four-factor scheme isn't arbitrary either; it's ideally suited to analyzing micro-economic choices. But it ***cannot*** help us to understand the distribution of wealth, and find the cause of poverty.

Don't entrepreneurs provide the initiative and courage to move the economy forward? So why vilify them? Ah, but do land speculators boldly move the economy forward, or selfishly retard it? By confounding — seemingly on purpose — the legitimately-earned wages of workers with the passively-collected gains of land-holders, this textbook gives entrepreneurs a bad name!

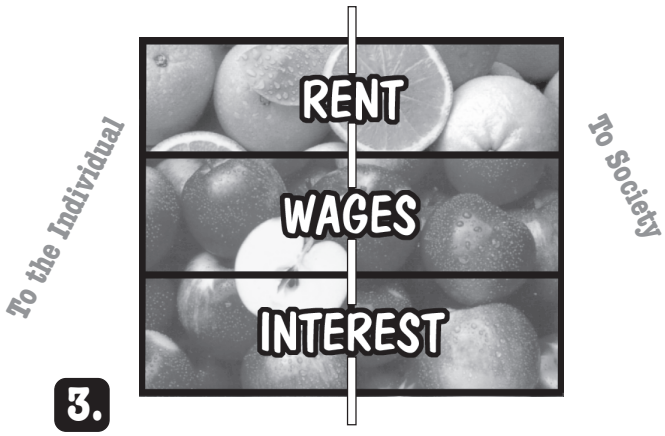
How Do We Divide the Fruits of Labor?



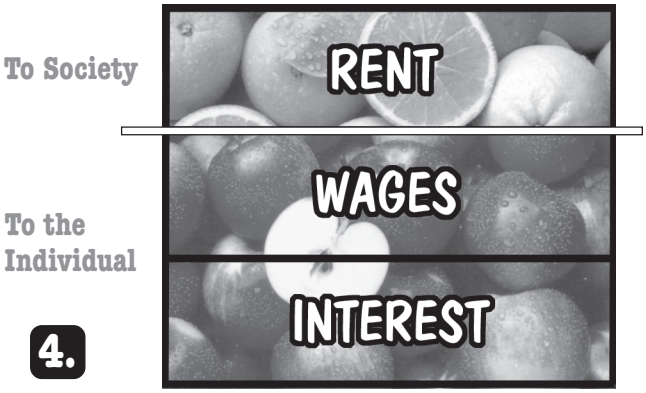
"Left-wing" proposals call for society to achieve equity by redistributing most of the wealth. No distinction is made between the sources of income (land, labor or capital), and individuals control only a small portion of the wealth. In most cases this entails a large measure of social control, and a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



"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.



"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 equity always appear to be at odds.



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.

Suggestions for Further Reading

(All books listed here are available from the Robert Schalkenbach Foundation: www.schalkenbach.org)

Other Books by Henry George:

Social Problems — A series of prophetic essays on the social questions of George's day, and ours.

Protection or Free Trade — Which best serves the interests of working people, and what is the true cause of falling wages?

The Science of Political Economy — George's last, and some say his greatest book: a systematic exploration of the science of economics.

The Land Question — Includes the Encyclical *Rerum Novarum* by Pope Leo XIII, and George's response.

Books on Topics Raised in this Course:

Critics of Henry George: A Centenary Appraisal of Their Strictures on Progress and Poverty, Robert V. Andelson, Editor, 2003, Blackwell Publishing — George's most prominent critics take their scholarly best shots. Updated, two-volume second edition.

Henry George, by Charles Albro Barker, 1991,1955, Robert Schalkenbach Foundation (Original publisher: Oxford University Press) — The definitive biography of George.

Costing The Earth, Ronald Banks, Editor, 1989, Shepheard-Walwyn — A series of studies on the real extent of land monopoly in today's economy.

The Corruption of Economics, by Mason Gaffney, Fred Harrison & Kris Feder, 1994, Shepheard-Walwyn — Groundbreaking study showing how the development of neo-classical economics was motivated by an attempt to deflect support from George's proposals.

Re-Solving the Economic Puzzle, by Walter Rybeck, 2011, Shepheard-Walwyn — An accomplished journalist offers an intellectual autobiography, showing how all his life experiences brought home the ever-greater importance of the land question.

The Alodia Scrapbook, Edited by Lindy Davies, 2010, Henry George Institute — The story of a poor, debt-saddled West African nation that embarked on a bold program of fundamental land reform.

Further Courses from the Henry George Institute:

Applied Economics, www.truefreetrade.org

Economic Science, www.politicaleconomy.org

Liberation Theology and Land Reform, www.landreform.org

Tuition-free courses in political economy are also offered by the Henry George School of Social Science in New York, Chicago, Philadelphia and San Francisco. For more information, see www.henrygeorgeschool.org

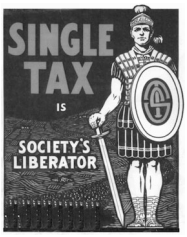
Notes

1. Henry George, *Progress and Poverty*, "Introductory: The Problem", paragraph 13
2 & 3. Henry George, "The Study of Political Economy" at http://schalkenbach.org/library/henry-george/study-of-political-economy.html
4. Henry George, *Progress and Poverty,* "Conclusion", paragraph 20
5. Henry George, following the convention of political economy at the time, denied that services are part of production. However, this contradicts his own view in his final book, *The Science of Political Economy,* that the goal of production is the satisfaction of human desire. Today, services are routinely considered to be part of production, and this course adopts that definition, taking exception with George on this minor point.
6. Many modern economists point out that some things other than land can be fixed in supply; examples include individual works of art, or the services of famous movie stars. However, such things are produced by labor, and are therefore still fundamentally different from natural opportunities. Also, land is always fixed in supply, while the vast majority of labor or capital are not. This is why, in this course, we restrict the term "Economic Rent" to the income gained from granting access to land.
7. Population Institute, "From 6 Billion to 7 Billion: How population growth is changing and challenging our world" September, 2011, http://www.populationinstitute.org/external/files/reports/from-6b-to-7b.pdf
8. *CIA World Factbook.* Updated annually. www.cia.gov/library/publications/the-world-factbook/
9. This section is adapted from notes for Prof. Mason Gaffney's study guide to *Progress and Poverty.* http://masongaffney.org/class/pandpstudyguide.html
10. Facsimile edition available at http://cooperativeindividualism.org/tholstrup-knud_economic-liberalism.html
11. Andelson, Robert, Editor, *Land Value Taxation Around the World,* Third Edition, Blackwell, 2000
12. See "Monopoly Game History; Landlord's Game History" at www.landlordsgame.info
13. Gaffney, Mason, "When California Had a Magnetic Tax System" http://masongaffney.org/workpapers.html
14. Gaffney, Mason and Noyes, Richard in Harrison, Fred, Editor, *The Losses of Nations,* Othila Press, 1998
15. Yates, Douglas "The Resource Curse Thesis," in Max Liniger-Goumaz, *Guinea Ecuatorial: Bibliografía General,* Vol. XV, 2007
16. Larsen, Erling Røed, "Escaping the Resource Curse and the Dutch Disease?" Statistics Norway, Research Department, Discussion Papers No. 377, 2004
17. http://www.progress.org/2004/fold352.htm
18. Miller, Roger, Economics Today, 5th edition, Harper & Row, 1989. Commentary by Lindy Davies

Do You See the Cat?

"Seeing the Cat" has long been a slang term for achieving an understanding of Henry George's ideas. Where did this expression come from? Louis F. Post, in his book *The Prophet of San Francisco,* quotes a speech made by Judge James G. Maguire in the 1880s: "I was one day walking along Kearney Street in San Francisco when I noticed a crowd in front of a show 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."





Henry George Institute
121 East 30th Street
New York, NY 10016

(207) 722-3362

www.henrygeorge.org