Henry George School of Social Science
CHARTERED BY THE UNIVERSITY OF THE STATE OF NEW YORK

50 EAST 69th STREET, NEW YORK 21, N. Y.
Telephone: RHinelander 4-8700

January 1954

Dear Teacher:

Among the things we hope to achieve in 1954 is an improvement of the current Teachers Manual for "Progress and Poverty". It is now five years since the present (fifth) edition of the manual has been in use and it's time it were reviewed and changed where called for.

In a couple of months we will send you another letter with an extra copy of the current manual. We will ask you to mark it up with your suggestions and return to us. Meanwhile, will you please go over your own copy and be thinking of the changes, improvements, additions, deletions, etc. that you will propose?

As a sort of pot-boiler, we are sending you a manual prepared by the late Walter Fairchild for the Schalkenbach Foundation. You may get some ideas from it. (We only have a few of our former (third) edition of the manual left. But you can consult it at your extension headquarters, if you haven't a copy.)

Several suggestions have already been made for the improvement of the current manual. Here are some of them:

1 - Revise outline of Lesson I. Omit reading of "The Problem". Teach something definite in this lesson (e.g., the meaning of basic terms).
2 - Have some questions on the wage-fund and Malthusian theories incorporated right in Lesson II instead of limiting them to a supplement.
3 - Introduce a supplement that will more clearly show the equal attractiveness of wages and interest.
4 - Simplify charts showing land speculation. (Supplement, Lesson V.)
5 - Explain "We must make land common property" when it is first presented. Emphasize the difference between Georgism and collectivism.
6 - Introduce a supplement that will show a plan for realizing the collection of economic rent and abolition of all other taxes.
7 - Bring all examples, etc. up-to-date. More questions in all lessons.

There are surely many other points that could be made. The best results will come from the combined deliberations of all our teachers everywhere contributing out of their own experience.

Much variation has to be allowed for - many differences in local situations; also behavior, beliefs and backgrounds of different groups of students. But what we should strive for is a manual that will be a common denominator, just as "Progress and Poverty" is. What we want is a good, useful, flexible tool that will help the teacher do the basic job and help him move through all the variations to our common goal - better and more widespread understanding of the economics and philosophy of freedom as expounded by Henry George.

Sincerely,

Robert Clancy

Robert Clancy
Director

HOW TO USE THIS MANUAL

This Teachers Manual has been prepared for a ten-lesson course in Fundamental Economics based on Henry George's Progress and Poverty. The course is usually given over a ten-week period, with one two-hour lesson a week.

The first lesson is introductory, and the remaining nine lessons are based on reading assignments in Progress and Poverty. Each week an assignment is given to the student, together with a lesson sheet containing questions based on the assignment*; also a supplement designed to aid the student in studying his lesson, or to bring in supplementary information not fully covered in the text. At each lesson, the teacher asks the questions in the lesson sheet, the students give answers, and there is discussion.

To get the full benefit of the course, the student is urged to read the entire assignment. Many students just read the portions indicated by the page references after the questions. Some, unfortunately, come to class without having read at all. The teacher must be prepared to gear his presentation to all three cases. It has been found effective to read selected portions of Progress and Poverty aloud in class.

As a teacher, you too should read the entire assignment before each lesson, no matter how many times you have read it before. You will be amazed at the number of things in the text you had not noticed before.

At the beginning of each lesson, briefly review the main points of the preceding lesson and "set the stage" for the current lesson. At the close of each lesson, summarize the main points and prepare the students for the subject matter of the next lesson.

In the Teachers Manual, for your guidance, there are model answers after the questions. The students may answer in different wording. Be quick to sense when the student has grasped the correct concept. In fact, if a student answers too often in the exact wording of the text, encourage him to re-phrase the answer in his own words, to be sure he has the meaning. Originality and independent thinking should be encouraged.

The Manual is designed with a view to covering the important points in Progress and Poverty. It is believed that the teacher will get the best results by following it. At the same time, the Manual should develop into your own personal tool, with your own markings, comments, clippings inserted, etc. If you keep it in a looseleaf book, you can add sheets, reprints, etc.

The supplements may be brought into class discussion at the teacher's discretion. Familiarize yourself with these supplements.

---

* Page references following the questions apply to the Robert Schalkenbach Foundation edition of Progress and Poverty; also the Modern Library edition.

It is not intended that the questions be asked mechanically, one right after the other, each one simply followed by an answer from the text. There are few enough questions in each lesson to allow some time for discussion on each important point before proceeding.

Do not allow discussion on side issues to be too prolonged. Be sure the main points of the lesson are covered.

It is desirable to get a consensus on the main ideas, but agreement should not be insisted upon. Understanding rather than acceptance is the goal. The atmosphere of the class should be one in which the truth is pursued by students and teacher alike. Questions and objections can be turned back to the student and the class in general. ("What do you think about the matter?")

The basic method used in this course is the Socratic method - questions put by the teacher and answered by the student. This does not mean that there must be nothing but questions from the teacher. There are times when it is suitable for the teacher to offer some words of explanation on a difficult point. But do not spend too much of the class time lecturing! The students will learn much more if they share in the discussion.

Participation by all members of the class is desirable. This means that sometimes the shy ones should be encouraged and the talkative ones diplomatically toned down. (For instance, if one student becomes too talkative, the teacher may turn to a shy student and ask, "What do you think of the point raised by Mr. X?"). But don't insist on it. Sometimes the quiet ones get a lot out of the points raised by the talkative ones. Respect each student's individuality, his opinions, his behavior.

Whether to address students by their first names or last names, depends on the teacher, the students, and the circumstances. The important thing is to create a friendly and relaxed atmosphere, but with a sense of purpose.

Open and close the class on time.

Progress and Poverty is important for the basic principles it expounds. Often the illustrations used are out of date, and these should be supplemented by contemporary illustrations. The teacher should try to keep up-to-date on the most important economic developments and to be reasonably well-informed on current affairs. But do not try to be an expert on everything, and do not pretend to know more than you do know. (If a question comes up, to which you do not know the answer, you may promise to find out and bring it in next week. When you do so promise, follow through with it.)

You are in class for one main purpose, and that is, to lead students in a study of economic fundamentals as presented in Progress and Poverty. Be an expert in that, and you will be a good teacher.

LESSON I

THE PROBLEM

Suggestions to Teacher

The first lesson is primarily a "selling" session which should convince the students they want to continue with the course. At the same time, the students should go away with the feeling that they have already started to learn something.

The following suggestions are to be used at your discretion. Each of the four points may take approximately a half hour, more or less.

1. WELCOME

Distribute enrollment cards and questionnaires (Lesson I) to students. Give them a little time to work on questionnaire and get acquainted. If you collect the enrollment cards before you formally open the class, you will have the names of students before you.

Open the class by welcoming students to the Henry George School. If it is not too large a class, you might let them introduce themselves by name and occupation. Students may also be asked to tell the class why they came. Then tell students something of the Henry George School:

Its purpose is to teach Fundamental Economics in order to contribute to a more informed citizenry. It was founded in 1932 by a New York scholar and businessman, Oscar H. Geiger. It is chartered as a nonprofit, nonpolitical educational institution by the University of the State of New York. From small beginnings it has grown and now has a large headquarters in New York, extensions in many cities in the United States and Canada, sister schools in various countries, and a correspondence course division. It is supported by voluntary con-

Notes

tributions of its friends and graduates and public-spirited people who approve of the School's work. The work is also made possible by volunteer services; teachers serve on a voluntary basis.

Its teachings and methods are based on principles of democracy and freedom and scientific inquiry.

The Henry George School is an independent institution. It is widely recognized as a landmark in adult education.

The School booklet contains additional information.

2. THE QUESTIONNAIRE

Review briefly current social and economic problems, particularly those that are at the moment in the public's attention. Point out that these and similar problems can be solved in a democracy only by citizens learning to think them through and that the School hopes to assist them in doing this.

You may then begin on the questionnaire. Answers from all students on each question are not necessary, but enough replies to get representative opinions should be sought.

Try to have all students involved by the time the questionnaire is gone through. Agreement on answers is not necessary at this session. The object is to get students thinking about economics and to become aware of economic problems. If good answers are given, however, or general (and correct) agreement seems to come out of the class on some point, they can be told so and thus encouraged.

3. THE PROBLEM

After the questionnaire, you may summarize the discussion, and then present the main economic problem somewhat

Notes

as follows: Why, in spite of our tremendous progress in productive power, is it still so difficult to make a living? Show that years ago, Henry George asked a similar question and sought an answer in his book, Progress and Poverty.

At this point, you may review briefly Henry George's career and his contribution as an economist and social philosopher:

Born in 1839 in Philadelphia, George participated in the California gold rush and witnessed the swift rise of civilization on the West Coast, together with its problems and maladjustments. He recognized that these maladjustments were universal, and analyzed them with keen observation in his book Progress and Poverty, which appeared in print in 1897.

The rest of his life was spent in writing more books, elaborating his ideas, lecturing, and participating in the political scene here and abroad. He ran twice for Mayor of New York City and during the second campaign, in 1897, he died, his election assured had he lived.

Henry George is one of the greatest thinkers produced by America and is her greatest economist. He believed in a free economy and tried to strengthen it. His Progress and Poverty is one of the half-dozen masterworks of economics of all time; it has outsold all the others, and has had a world-wide influence.* (Some appreciations of Henry George by prominent persons may be read in our School booklet.)

Pass out copies of Progress and Poverty to the students. Selected portions of "The Problem" may then be read aloud (especially from page 10 to the end), either by yourself or by some of the students, taking turns. Select in advance those portions you want read.

*See Henry George: Citizen of the World by Anna George deMille.

Notes

Make comments showing that George's "Problem" essentially sums up the great social and economic problems of our day. Poverty in the U.S. in George's day may have been more intense; our present-day standard of living may be higher due to material progress, but it is still difficult for the average man to keep up with this standard and many people live below it. (See footnote, p. 8, Progress and Poverty.) The problem today is still progress and poverty. (Note, too, George's review of economic fallacies on page 11, which sounds very modern.) Students may be promised that as they proceed more deeply into this book, they will find further interesting revelations.

Notes

4. OUTLINE OF COURSE

Explain that the course has been set up to follow the development of Henry George's analysis of the problem. Students should understand the points brought out in the book, but they are also urged to think for themselves and to test every step of the way with their own reasoning. They are encouraged to ask questions if anything is not clear, and invited to participate fully in the discussions.

Explain that in seeking a solution to the problem of making a living, we turn to the science of political economy (as stated in "The Problem", bottom of page 11). The term "economics" is used more frequently in modern times. Offer the definition of political economy: "The science that treats of the nature of wealth and of the natural laws of its production and distribution."

Tell the class that although economics today is, unfortunately, not generally recognized as a science, we propose to treat this study as a science, seeking its natural laws, just as in any other science.

Offer the first natural law, or axiom, of political economy, as set forth in "The Problem," top of page 12 - "men

seek to gratify their desires with the least possible exertion." A short discussion on this point can take place here. You might even challenge students to think of an exception. They will probably think of things that have to do with "desire" (e.g. "men will work harder to produce a better product"). Then you can bring in the corollary axiom, "man's desires are unlimited." (Thus the first axiom does not mean a tendency to less and less activity,but quite the reverse.)

Explain to students that all of political economy is based upon these simple axioms, and if they grasp these they will have no trouble with the subject.

Proceed, then, to give a brief outline of the remaining 9 lessons (without going too deeply into the subject matter) somewhat as follows:

Lesson 2 - Definitions; Production and the Source of Wages. It is important first to learn the language of political economy and then to be consistent in using it. Also to be discussed: "Where do wages come from?"

Lesson 3 - Population and Subsistence; and Natural Laws of Distribution, first part. Are there too many people? How wealth is distributed once it is produced. The basic law of distribution.

Lesson 4 - Laws of Distribution, second part. The remaining laws of distribution correlated with the basic law.

Lesson 5 - Material Progress. How the laws of distribution apply in an expanding economy.

Notes

Lesson 6 - The Industrial Depression; Proposed Remedies. The basic problem of making a living solved. Inadequacy of currently proposed solutions.

Lesson 7 - The Remedy - Its Justice. The remedy proposed by Henry George examined for its rightness and fairness.

Lesson 8 - Application of the Remedy. How this remedy can be put into effect in modern society.

Lesson 9 - Effects of the Remedy. What the effects are likely to be, based on our knowledge of people, and also on partial applications now in effect.

Lesson 10 - Law of Human Progress. How civilizations advance and decline. What must be done to save our own cililization.

Explain to the students how the study will be undertaken. One two-hour session a week for ten weeks. There will be a reading assignment in Progress and Poverty, and a question-sheet and study supplement for each lesson handed to students in advance, to help find the main points. The assignment and questions will then be discussed at the following session. Encourage students to complete the study now that they have started. They will be richly rewarded. They should not feel discouraged if they come across parts that seem difficult to them. All these difficult points will be explained in class and everything made clear.

Close the class by passing out lesson sheets and supplements for Lesson II, collecting money for books, and reminding students of the date and time of the next session. They can still bring friends to Lesson II to take the course.

Notes

LESSON I

(QUESTIONNAIRE)

TO THE STUDENT: This is not an examination. You will not be asked to turn in this paper.

Most of the following questions can be answered "yes" or "no." Insert your answers in the first column. These questions among others, may be used in discussion at the opening session of this course. For subsequent sessions there will be a definite prepared assignment.

Preserve this sheet until the completion of the course and insert your answers at that time, in the second column. You will find it interesting to compare your answers before and after the course.

	First Lesson	Tenth Lesson
1. Is there any limit to the goods and services that people want?	1.	
2. Are "boom and bust" cycles avoidable in a free economy?	2.	
3. Would you consider the following to be wealth?	3.	
(a) Trees in a virgin forest	a	
(b) Wood in a lumber yard	b	
(c) Fish swimming in the ocean	c	
(d) Fish in the market	d	
(e) Untapped oil in the ground	e	
(f) Gasoline in your car	f	
(g) A house	g	
(h) The lot on which the house stands	h	
(i) Money	i	
(j) Slaves	j	
4. Do machines cause unemployment?	4.	
5. Has this nation ever suffered from over production?	5.	
6. Are low wages caused by over-population?	6.	
7. Would you consider the work of the following people as labor?	7.	
(a) Coal miner	a	
(b) Business executive	b	
(c) Traveling salesman	c	
(d) Independent storekeeper	d	
(e) Slave	e	
8. Would reduced taxes increase purchasing power?	8.	

(over)

LESSON I

(QUESTIONNAIRE)

	First Lesson	Tenth Lesson
9. Put a check in the column after the statement you consider right:	9.	
(a) Taxes should be levied according to ability to pay.	a	
(b) Taxes should be levied according to benefits received by the taxpayer.	b	
10. Should the Government place a limit on a person's earnings?	10.	
11. Can labor be employed without the aid of capital?	11.	
12. Put a check in the column after statement you consider correct:	12.	
(a) Employers pay wages out of their capital.	a	
(b) Employers pay wages out of what labor produces.	b	
13. Put a check in the column after statement you consider correct:	13.	
(a) Mass unemployment is due to personal laziness, incompetence, lack of skill, bad habits, poor health, etc.	a	
(b) Mass unemployment is due to economic maladjustments over which the individual has only limited control.	b	
14. Check one:	14.	
Is every one entitled to:		
(a) A living?	a	
(b) An opportunity to earn a living?	b	
(c) Neither?	c	
15. Do the following prevent poverty?	15.	
(a) Social Security	a	
(b) Unemployment insurance	b	
(c) Minimum wage laws	c	
(d) Guaranteed annual wage	d	

LESSON II

DEFINITIONS; PRODUCTION AND THE SOURCE OF WAGES

Reading Assignment: Book I, especially Chaps. 2 and 3; also middle paragraph, p. 162.

Suggestions to Teacher

Briefly review "The Problem" and the main points covered in Lesson I. New students may still enroll in the class at this lesson.

Explain that the main objective of this course is to search out fundamental economic principles and relationships and to apply them to current problems.

Much of the confusion in political economy (or economics) is due to divergent uses of the same word. In any science, terms must be clearly defined. All the more so in economics which uses terms that are commonly used. (Henry George's explanation of this point on page 31 of Progress and Poverty might be read aloud in class.)

After covering the definitions, examination of the Wage-Fund theory is also taken up in this Lesson. Slightly more time should be spent on definitions than on the wage-fund theory - say 1-1/4 hours and 3/4 of an hour, respectively.

At the end of the Lesson, pass out the material and reading assignment for Lesson III.

Notes

LESSON II - QUESTIONS

The Meaning of the Terms:

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

   The science that treats of the nature of wealth and of the laws of its production and distribution.

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

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

3. Are bank-notes, money, stock certificates, mortgages and bonds wealth? (39-40)

No, they are but evidences of wealth, or claims on wealth. Their increase or decrease does not affect the sum total of wealth. Essentially the same is true of money. It is a means to exchange wealth, rather than wealth itself.

4. Is land wealth? Why? (38)

No, it is not a product of labor.

5. Are knowledge, skill and experience wealth? Why? (39)

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

6. Are slaves wealth? Why? (40)

No, they are human beings whose labor is exploited.

Production

7. What are the factors in the production of wealth? (32-38)

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

8. What is land? (38)

The whole material universe exclusive of man and his products.

9. What is labor? (32 and 39)

All human exertion in the production of wealth.

10. What is capital? (42,80; also 162)

Wealth used to produce more wealth. (Henry George's alternate definition is, wealth not yet in the hands of the final consumer; or, wealth in the course of exchange.)

11. Give some examples of wealth that is and wealth that is not capital (46-47)

Capital	Wealth not Capital
Books in a book-store	Books in the home
Auto used in business	Auto used for pleasure
Carpenter's tool kit	Hobbyist's tool kit

(The student may give "money" as an example, and if so, should be corrected. See question 3; also footnote p. 47 of text. On page 46, George's reference to money as capital is only intended to represent the opinion of an intelligent layman.)

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

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

13. When is production completed? (48)

When the product reaches the ultimate consumer.

Distribution

14. What are the three avenues of distribution? (162)

Rent, wages and interest.

15. Define rent. (162)

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

16. Define wages. (162)

That part of wealth which is the return to labor.

17. Define interest. (162)

That part of wealth which is the return for the use of capital. (Any other returns, such as "profits" or "taxes" are derived from one or more of the three basic returns.)

Blackboard Chart

Factors	Product	Distribution
Land		Rent
Labor	Wealth	Wages
Capital		Interest

Production and the Source of Wages

18. What is the problem of poverty? (17)

Why, in spite of technological progress, is it so difficult to make a living? Or - Why, in spite of the increase in productive power, do wages tend to a minimum which will give but a bare living? Thus, it is a problem of wages.

19. What is the "wage fund" theory advanced to explain this problem? (17)

That wages are fixed by the ratio between the number of laborers seeking employment and the amount of capital devoted to their employment. (Though formally refuted, this theory persists today in one guise or another. Examples: (1) Ads by industries stating that "capital gives jobs"; (2) Bargaining by labor unions.)

20. Upon what assumption is this theory based? (22)

Upon the assumption that wages are drawn from capital.

21. When the laborer employs himself, are his wages drawn from capital? (50)	No, from the product of his labor. Examples: fishing, fruit picking.
22. When laborers are paid by a percentage of what they produce, where do wages come from? (53)	From their own production. Examples: Whaling, selling on commission.
23. When laborers are paid with money, is the result any different from paying wages in kind? (55-56)	No, it is essentially the same thing; money but represents the wealth produced. "Production is always the mother of wages."
24. Does labor precede the payment of wages? (57-59)	Yes, labor must first produce the wealth from which its wages come.
25. If the worker is engaged in an enterprise the product of which cannot be put into exchange immediately, are his wages advanced from capital? (64-69)	No, labor always adds to capital by its exertion before wages are paid. The value of a partially completed ship, canal, or tunnel stands in place of the value paid out in wages.
26. Do we live on past or on current production? (75-76)	On current (that is, continuous) production. Suspension of production in any community would bring disaster within a short time.
27. Does lack of capital explain the persistence of poverty? (87-88)	No, there is often the deepest poverty where capital is most abundant. We must look further for the cause of poverty.

SUPPLEMENT - LESSON II

DEFINITIONS

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

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

Like the law of gravitation, the laws which underlie this science are evidenced by those invariable sequences encountered in nature. They are not the ordinances and statutes enacted by governments. These natural laws deal with man's efforts in cooperation with his fellows in society to procure the wherewithal (wealth) to enable himself and his dependents to live and to gratify their manifold desires.

Wealth - All material things produced by labor for the gratification of human desires, and having exchange value.

It is thus seen that wealth has four characteristics:

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

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

3) Wealth must be capable of gratifying 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 gratify desire directly. Only those things are wealth, the production of which, or the destruction of which, increases or decreases the total of goods that administer to human desires in a community.

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

Production - All the processes involved in bringing wealth from its place of origin to the ultimate consumer.

Production includes the making of things and the bringing of them to the consumer. An automobile, for example, from the extraction of the ore which some time later becomes its steel body and metal fittings, through the complex procedures of engineering, manufacturing, advertising and marketing, to the final moment when the ignition keys are placed in the retail purchaser's hands by the local automobile dealer, is the embodiment of an extensive cooperative effort in production.

Land - The entire material universe exclusive of man and his products.

Everything physical (other than man) which is not the result of man's 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, whereas the timber in a cultivated forest is wealth. (Other examples: wind, electrical energy, wild game.)

Labor - All human exertion in the production of wealth.

Mental toil is labor as well as muscular effort. All who participate in production by expending their mental or bodily energy, or both, are laborers in the economic sense. Whether the work is that of the executive at his desk, the engineer at his drawing board, the mechanic at his lathe, the sales clerk in a store, or the farmer in a field - it is labor, in political economy. (In a larger sense, exertion expended in such services as acting, dentistry, teaching, etc., may be considered as labor; but in political economy we limit our attention to exertion in the production of wealth.)

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

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

Distribution - The apportionment of wealth among the factors which produce it.

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

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

We commonly speak of paying "rent" for building accommodations,or for hiring a typewriter or an automobile. This is not economic rent. Only that which is realized from land can properly be termed "rent."

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

Ordinarily, wages are thought of as the compensation paid to an employee. Economically speaking, however, wages include the earnings of all whose labor has in some way produced wealth. Thus, the owner of a business enterprise earns wages when his managerial services help in the output of the product.

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

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

LESSON III

POPULATION and SUBSISTENCE; THE LAWS OF DISTRIBUTION, PART I (The Law of Rent)

Reading assignment: Book II; also Book III, Chaps. 1 and 2 only.

Suggestions to Teacher

Review the seven basic definitions and the wage-fund theory.

Wages are not paid out of capital, but each laborer produces his own wages.

Lack of capital does not explain poverty.

We are now ready to consider whether an imbalance between population and the resources of nature explains poverty, that is, whether there are too many people in the world.

After dealing with population and subsistence (which should take up less than half the time of this Lesson) we find that poverty is due neither to the lack of capital nor to the "niggardliness of nature." Since the explanation is not to be found in a lack of productive power, we now turn to the distribution of wealth for an answer.

Land Labor Capital	} Wealth {	Rent Wages Interest

A Reminder: At the end of this Lesson and all succeeding lessons, pass out the Questions and Supplement for the following Lesson.

Notes

LESSON III - QUESTIONS

Population and Subsistence:

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

That population tends to increase faster than subsistence. (Current examples of advocacy of this doctrine should be brought in.)

2. To what can we attribute the poverty of supposedly over-populated countries, other than density of population? (106)	Unsocial ignorance; unjust laws; destructive warfare; unequal opportunities; under-development.
3. In point of fact, have the populations of these countries outrun the means of subsistence? (113)	No, large unused areas and inefficiency of production indicate that a great deal more could be produced in these countries than is being produced. (Example: Iran has a population of 30 per sq. mi. Once a rich agricultural country, the people now live in poverty, in spite of oil development. Denmark has 10 times the population of Iran per square mile, and has a high and well distributed standard of living, in spite of poor natural resources. Cite other examples. See Supplement.)
4. In these supposedly over-populated countries, does all the wealth produced go to the producers? (113-128)	No, in all such countries there is a large number of non-producers supported in luxury, and production is retarded by unjust laws.
5. Are we near the limit to the number of people the earth can support? (133-134; See also p. 243)	No, the limit could only be the limit of space. Meanwhile, the earth is still sparsely populated, resources are still plentiful, and we are daily learning new methods of producing more.
6. Where do we find the greatest evidences of wealth, in densely populated communities, or sparsely populated communities? (143)	The per capita production is much greater in densely populated communities than in sparsely settled places.
7. Does the increase of population decrease or increase the power to produce wealth? (150)	The increase of population increases the power to produce wealth, as a greater number of people can produce a larger proportionate amount of wealth than a smaller number.
8. Does the increase of population therefore explain why poverty persists amidst advancing wealth? (150)	It does not. On the contrary, the increase of population permits of greater productivity. As the answer to our problem is not to be found in the laws of production, we will turn to the laws of distribution.

The Laws of Distribution

9. In political economy, what is meant by:
   a) the distribution of wealth?
   b) the laws of distribution? (See Supplement)

   a) The division of wealth among the factors that produced it.
   b) The natural laws which determine what portion of wealth produced is the return to each factor of production; i.e., land, labor and capital.

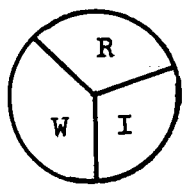
10. How are the laws of distribution related to one another? (160)

   These laws must account for distribution of the entire product.

11. Name and define the three parts into which the total produce is distributed. (162)

   Rent - Return for use of land.
   Wages - Return for labor.
   Interest - Return for use of capital.

   (Blackboard chart: "the pie")



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

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

13. Is wealth always divided into three parts? (184)

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

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

   Because it is indefinite. A "profit" is any amount received in excess of an amount expended, and may consist of rent, wages or interest; or any combination of them. "Profits" is a bookkeeping term, not an economic term.

Law of Rent

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

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

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

   Yes. Whatever the owner might obtain by letting the land to another person, is rent.

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

No, rent arises only when some one is willing to pay for the use of the land.

(Teacher: At this point start blackboard charts on the Law of Rent, making sure to bring out the points in the following questions.

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

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

19. What qualities make some land better than other land? (167)

Superior situation and fertility. "Situation" includes not only natural advantages, but also the advantages conferred by population, such as city sites.

20. If men must resort to land of inferior quality to get it free, what now happens to the rent of all better land? (167)

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

21. What is the margin of production? (169,172; also 207, 212) (The term "margin of cultivation" is sometimes used. Both have the same meaning.)

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

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

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

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

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

24. If we learn what portion of production goes to rent, how will that tell us what portion goes to wages and interest? (171)

We can tell by subtraction how much is left for wages and interest (or wages alone, if capital is not used).

Production = Rent + Wages + Interest
Production - Rent = Wages + Interest

SUPPLEMENT - LESSON III

1. Too Many People? 2. The Distribution of Wealth 3. The Law of Rent

1. TOO MANY PEOPLE?

There is little correlation between density of population and poverty. The American Oxford Atlas of 1951 indicates population densities per square mile in various countries, as follows:

Australia	2.66	France	191.9	Pakistan	194.1
Belgium	724.1	Germany	452.2	Poland	197.5
Brazil	14.9	Gt. Britain	504.7	Spain	143.3
Canada	3.48	India	295.	Sweden	39.9
China (Com)	152.8	Italy	385.	Switzerland	291.3
Denmark	244.	Japan	563.8	U.S.A.	50.6
Egypt	49.4	Netherlands	768.1	U.S.S.R.	22.2
				Rep. of Ireland	111.1

Sparsely populated Australia, Canada, U.S.A., and Sweden, and densely populated Belgium, Holland, Germany and Great Britain have far higher standards of living than such countries as Brazil, China, Egypt, India, Italy, Japan, Pakistan and the U.S.S.R., indicating that density of population is not a relative factor.

The Food and Agricultural Organization Year Book for 1953 shows the following World Crop Yields in 1952, in relation to commercial Fertilizer consumption:

Country	Wheat	Barley	Oats	Maize	Rice	Potatoes	Fertilizer
	(Per Bushel, Per Acre)						(Per arable acre)
Denmark	60.5	69.9	99.8	-	-	316.7	99.6
Netherlands	59.3	63.6	88.1	58.8	-	402.9	366.2
Belgium	51.3	57.2	79.7	91.0	-	447.6	267.3
U. K.	42.4	45.3	67.5	-	-	295.9	91.3
Switzerland	41.0	47.6	77.2	49.4	-	312.2	121.4
W. Germany	41.0	46.3	65.5	35.4	-	309.3	167.7
Ireland	38.4	51.5	66.4	-	-	322.7	47.7
New Zealand	35.5	40.1	67.7	58.5	-	254.3	280.1
Sweden	31.7	57.4	46.8	27.4	81.9	190.3	150.8
U.S.A.	18.3	27.5	32.9	40.5	54.3	249.8	24.3
Aver. (excl. USSR)	18.0	24.5	39.3	26.1	33.5	139.8	10.5
U.S.S.R.	14.2	18.2	28.1	19.0			

It is by no means true that the most important cause of low productivity is the inherent quality of the soil or climate, or rainfall. Denmark, with poor and sandy soil, has heavy yields because of livestock farming, abundant use of fertilizer, good crop rotations including legumes, and good seed selection.

If yields throughout the world were raised to the average yields of the first seven countries in the above table, wheat yields would increase 165%; barley 114%; Oats 98%; maize 125%; rice 143%; potatoes 146% higher than the world average.

There is room for improving yields even in Western Europe. John M. Turrell of Norfolk, England, and his two brothers raised 131.7 bu. of wheat per acre in 1953, over three times the United Kingdom average.

In the Etawah area of India, one farmer, under the guidance of Horace C. Holmes of the United States, raised wheat yields from 13 bu. to 63 bu. per acre.

The FAO Yearbook reports that there are 1,100 million acres of unused but potentially productive land in the world, three-fourths of it in the underdeveloped areas. Only one-sixth of the arable area of Australia is used. Canada is using only half of her arable area. In the Middle East, 8 countries till 80 million acres; another 215 million acres could be tilled, if they were irrigated.

Several hundred million acres in China (especially in the semi-arid northwest) are untilled for lack of machinery to till them economically.

Known world petroleum reserves are increasing at least as rapidly as they are being used. But oil is a non-renewable resource. We can, however, produce oil from shale. The oil-shale reserves in the U.S. are 500 billion barrels, or 17 times more than our known reserves of petroleum. Total world reserves are unknown.

The known coal reserves will last 3,000 to 5,000 years at the present rate of use. The known reserves of uranium and thorium could yield over 25 times the net economically recoverable reserves of coal. In 1954 in the United States, atomic power plants could be built at $174 a KW, the same cost as for a steam plant burning coal. Electricity from an atomic plant would cost 6 to 8 mills per KW if U-235 were priced between $20 and $50 a gram. This compares favorably with the actual cost of power in T.V.A. system of 5.4 mills and 10.1 mills in privately owned utilities. These costs include operating expenses, depreciation, administrative and general expenses.

The solar energy that reaches horizontal surfaces in the lower middle latitudes is equivalent to about 1,000 tons of coal per acre per year. The energy increases in the arid sub-tropics and tropics. This is greater than the energy content of all the reserves of coal, oil, natural gas and uranium in the earth's crust.

In April 1954, for the first time a solar battery converted usable amounts of the sun's radiation directly and efficiently into electricity. A year later a solar battery with 11% efficiency was developed, comparing favorably with steam and gasoline engines. The maximum theoretical efficiency is estimated at 22%. The radiant energy of the sun can be concentrated by giant mirrors or lenses and transformed into heat for the production of steam power.

Too many people? Has any nation yet made full use of its natural resources? Instead of nature being miserly, her bounties remain untapped.

2. THE LAWS OF DISTRIBUTION

The distribution of wealth in political economy means the division of wealth among the factors that have produced it. The meaning is thus different from "distribution" in common parlance, which usually means the transportation of goods. As noted in Lesson II, transportation is really part of production.

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

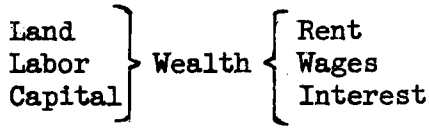
Economic laws are not man-made or legal rules, but are natural laws of human behavior. The basic law that concerns us is: Men seek to gratify their desires with the least exertion. In studying the laws of distribution, we learn how this basic law fixes the return to each factor of production; that is, land, labor and capital.

Natural laws deal with underlying tendencies. For instance, man will always seek gratification with the least possible effort, though he may not always succeed. In the laws of distribution, we must first look for the underlying tendencies. Man-made laws may have an influence on economic processes, and on the distribution of wealth. Various obstacles and hindrances may change the picture. After we discover the basic laws, we may then study the effects of all these other conditioning factors.

Some modern economists do not agree that there are natural laws in economics. They limit themselves to a description of business processes and statistical data. But in so doing, they fail to build up a clear and coherent explanation of economic phenomena, especially of the distribution of wealth. This can only be done by a study of the natural laws involved.

Some economists do not accept only three factors of production and three avenues of distribution. Some would add a fourth factor, "enterprise," the return to which is "profits." Upon examination, it may be seen that enterprise is included in the economic term labor, and that there is no such thing as profits apart from rent, wages, and interest. Some speak of a fifth factor, "Government," the return to which is "taxes." Insofar as government renders a service, it is like enterprise. Wasteful government, of course, does not produce wealth at all, and may even destroy it. Taxes can only come from rent, wages and interest. Some economists would reduce the factors of production to two - labor and capital - maintaining that land is but a form of capital. But this lumping together of things essentially different results only in confusion. Land is not produced by man; capital is. Land is fixed in quantity; capital is not. The laws governing the returns to land and capital are essentially different.

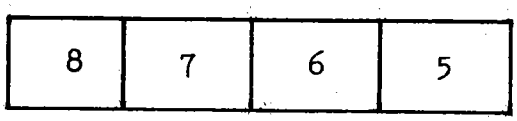
The entire product (wealth) is distributed as rent, wages and interest; and hence this distribution must account for the entire product.



3. THE LAW OF RENT

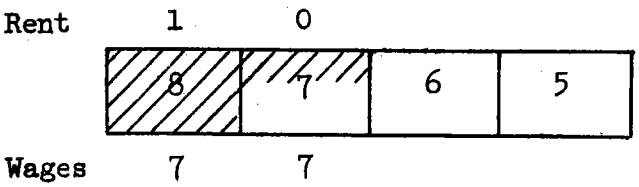
These illustrations show how rent arises and is measured in relation to wages, in a new society where capital is not yet used. As the course proceeds, we will see the effect on rent of an advanced, complex society and what happens when capital is employed.

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



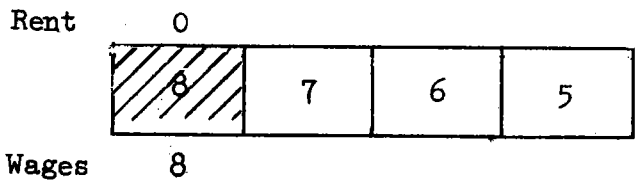
A. Represents a new country divided into areas of varying productivity. The figures represent what each grade of land will yield per unit of labor - e.g., 8 bushels of potatoes for one day's work; 7 bushels, etc.

In reality, lands are not marked off so sharply as on this diagram, but blend into one another, as the colors of the spectrum.



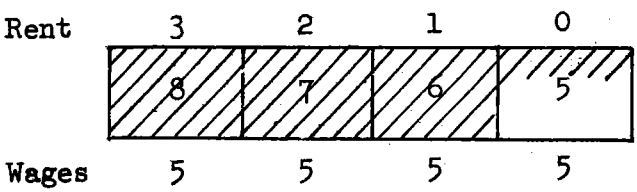
C. Eventually, all the "8" land is occupied, and the next comers must resort to "7" land. This land is free and yields no rent. The entire product of 7 goes to labor as wages. This "7" land is now the margin of production - the best land to be had for nothing.

Wages also drop to "7" on "8" land which now yields a rent of 1. If the owner of "8" land wanted to hire labor, he would have to pay 7 in wages, since that is what the laborer could get working for himself on "7" land. If a laborer from "7" land wanted to work on "8" land, he would have to pay 1 to the owner in rent, since he can get no more than 7 working on free land.



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

As the land is free, there is no rent. All they produce constitutes their wages. (Shaded portion represents settled land.)



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

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

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

LESSON IV

THE LAWS OF DISTRIBUTION, PART II
(The Law of Interest and the Law of Wages)

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

Suggestions to Teacher

Review the Law of Rent with blackboard demonstration. A suggestion: Have a student make the demonstration and the class comment on it.

In this Lesson, the Laws of Interest and Wages are developed as corollaries of the Law of Rent. The Law of Wages has already been shown by inference in developing the Law of Rent.

The laws of distribution can be seen as laws of proportion - the division of the product among the three factors.

Note: This Lesson does not dwell upon Henry George's "reproductive modes" theory of interest as set forth in Chap. 3. This is really a digression from his main theme and is not essential to an understanding of the Laws of Distribution. However, as a teacher it would be well for you to familiarize yourself with this theory.

Notes

LESSON IV - QUESTIONS

The Law of Interest

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

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

2. **Is land capital? Is the return from land interest? (189)**

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

3. Do stock dividends and interest on bonds represent true economic interest? (189-190)	Not necessarily. Stocks and bonds are not capital; they are evidence of ownership. If they represent capital, the return reflects interest. If they represent land, the return reflects rent. Compensation for risk generally also enters into the return.
4. Does capital employ labor or does labor employ capital? (195)	Capital is a form of wealth, not a person or persons. Capital is used by labor as an aid in producing wealth, and it is always labor that employs capital.
5. Is capital a fixed quantity? (195)	No, it fluctuates. Its quantity depends on (a) amount of production; (b) amount of existing wealth used as capital.
6. What is the maximum return that can be obtained for the use of capital? (195)	The entire increase that its use will bring. Any larger return to capital would involve a loss to labor.
7. What is the minimum return that can be obtained for the use of capital? (195)	The replacement of capital. Any smaller return to capital would involve a loss to the owners of capital. (In exceptional cases an owner might take a loss rather than allow capital to deteriorate entirely.)
8. What is the normal point of interest? (198)	Interest will tend to settle around that point which will make the rewards of labor and capital equally attractive, that is, will give an equal result to either for an equivalent effort or sacrifice made.
9. Why does such a point of equilibrium exist? (198)	Because otherwise labor would not accept the use of capital, or capital would not be placed at the disposal of labor.
10. If interest tends to rise above the point of equilibrium with wages, how will the balance be re-established? (200)	(a) There will be a tendency to produce more capital; (b) a greater portion of existing wealth will be applied to use as capital. The resulting increase of capital will tend to reduce interest rates.
11. If interest tends to fall below this point of equilibrium, how will the balance be re-established? (200)	(a) There will be a tendency to produce less capital; (b) a lesser portion of existing wealth will be applied to use as capital. The resulting scarcity of capital will tend to increase interest rates.

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

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

13. What is the Law of Interest? (203)

"As rent arises, interest will fall as wages fall, or will be determined by the margin of cultivation." (Note: The student may quote the entire law, as italicized on p. 203. Only the second sentence is essential. It is suggested that the last paragraph on page 203 be read aloud in class.)

The Law of Wages

14. What is the fundamental principle of human action? (204)

That men seek to gratify their desires with the least exertion.

15. How does this principle operate to bring equal returns for equal effort? (204-205, and 211)

Men will seek the most remunerative employment. Where rewards are highest, labor will flow in that direction until an equilibrium is established. There is thus a common basic level for all wages.

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

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

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

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

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

What he can earn working for himself. (Note: Keep Law of Rent Charts on the blackboard and refer to them during the following questions.)

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

The whole product.

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

The whole product less interest for the use of capital.

21. Where rent arises, what determines wages? (207-213)	Wages will be determined by what labor can produce from the best available rent-free land; i.e., the margin of production.
22. What is the Law of Wages? (207-213)	Wages depend upon the margin of production (or upon the produce which labor can obtain at the highest point of natural productiveness open to it without the payment of rent), falling as it falls and rising as it rises.
23. Where all natural opportunities are reduced to ownership, what may happen to wages? (213)	Wages will tend, by competition of laborers for natural opportunities and jobs, to the minimum necessary for subsistence.
24. If better natural opportunities than are now available were freely obtainable, what would happen to wages? (214-215)	Wages would rise as the margin rose.
25. Is the Law of Wages a law of quantity or a law of proportion? (216)	It is a law of proportion.

Correlation of the Laws of Distribution

26. From what fundamental principle of human action do these three laws of distribution arise? (218)	From the principle that men seek to gratify their desires with the least exertion. This principle establishes an equilibrium between wages and interest, as men move to more advantageous opportunities; but it acts reversely as between rent and wages, because land is fixed in quantity, is non-reproducible, is necessary to production, and its ownership confers a monopoly.
27. At what common point are rent, wages, and interest determined? (219)	At the margin of production.
28. Do the laws of Rent, of Wages, and of Interest account for the full division of the product? (220-222)	Yes.

29. Why, in spite of the increase of productive power, do not wages rise proportionately? (222-224)	Because rent absorbs an ever-increasing share of the wealth produced. (This is the "statics" of the problem, a deduction from the laws of distribution. We have yet to find the "dynamics" - or what it is that makes rent advance.)

SUPPLEMENT - LESSON IV

1. INTEREST AND WAGES 2. THE ECONOMIC STRUCTURE

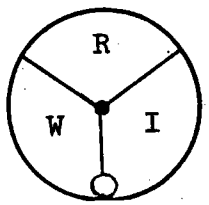
1. INTEREST AND WAGES

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

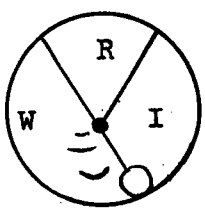
In effect, interest is a return for human exertion which has been previously applied and stored up in material form to increase production. This return (interest) will balance with the returns for other human exertion applied directly (wages). Interest and wages will be equally attractive because people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

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

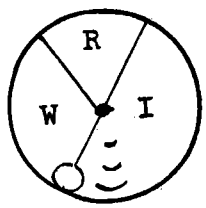
Wages are determined by what labor can obtain at the lowest point of production, that is, the best land available rent-free (the margin of production). Wages can be no higher on any better land because the competition of people seeking the higher return would naturally tend to lower wages there, also.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



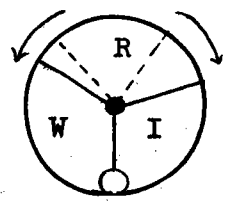
A. The total product is divided into rent (R), wages (W) and interest (I). Between wages and interest there is a balance represented by the pendulum dividing them.



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



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



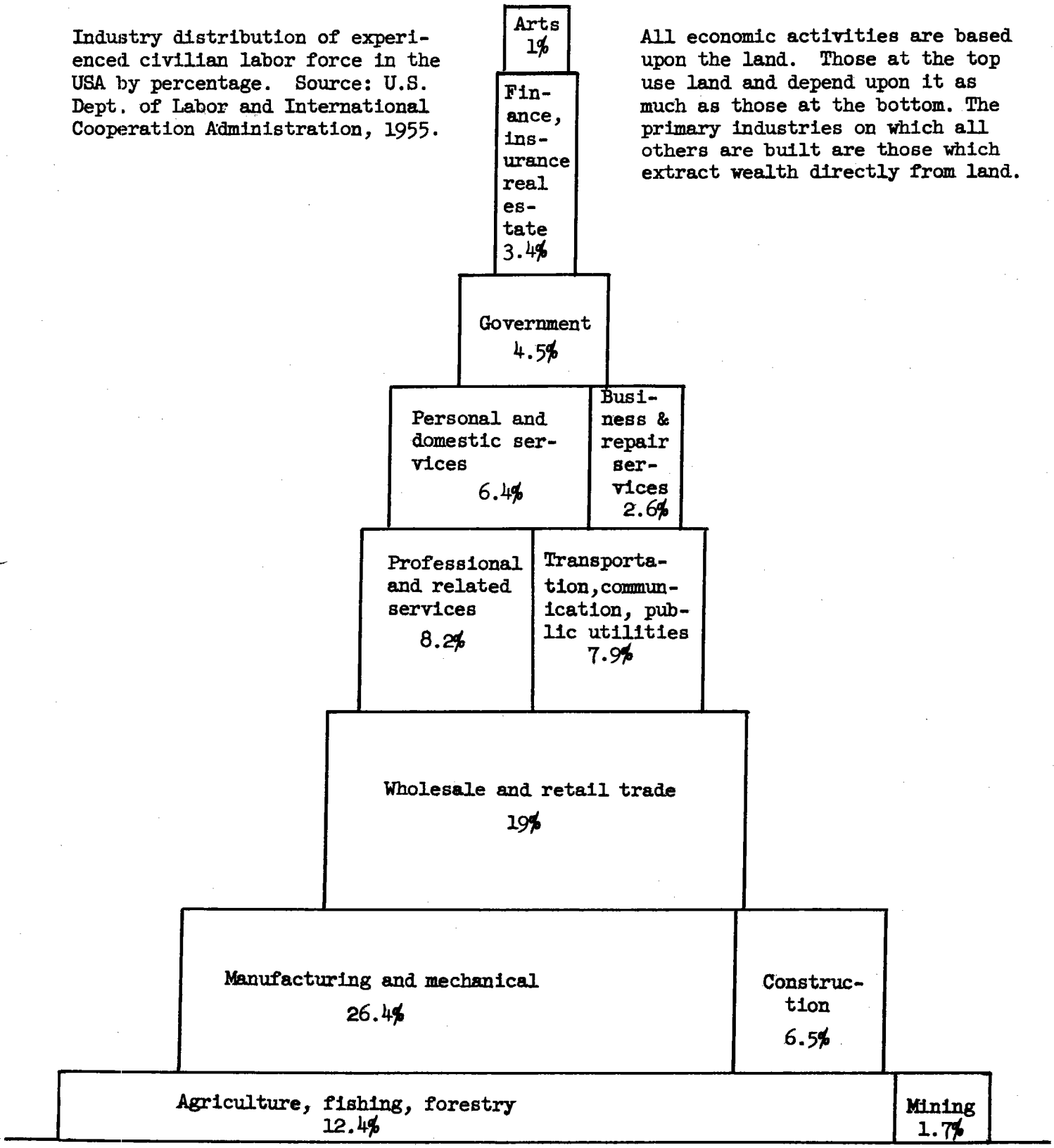
D. While wages and interest tend to an equilibrium, this does not hold true of rent. Land being fixed in quantity, there can be no new supply to bring rent down. Thus rent increases at the expense of both wages and interest.

As rent arises, interest will fall as wages fall, or will be determined by the margin of production.

2. THE ECONOMIC STRUCTURE

Industry distribution of experienced civilian labor force in the USA by percentage. Source: U.S. Dept. of Labor and International Cooperation Administration, 1955.

All economic activities are based upon the land. Those at the top use land and depend upon it as much as those at the bottom. The primary industries on which all others are built are those which extract wealth directly from land.



LAND THE SOURCE OF ALL WEALTH

LESSON V

EFFECT OF MATERIAL PROGRESS UPON THE DISTRIBUTION OF WEALTH

Reading Assignment: Book IV

Suggestions to Teacher

Review the Laws of Distribution: Rent, wages and interest are determined at the margin of production. Wages and interest fall as the margin falls, and rent rises.

Capital has been blamed for "exploiting" labor. We have seen that the interests of labor and capital are identical. The false notion about capital as exploiter comes from the mistaken identification of land as capital. In identifying land as a factor separate from capital, we have also identified rent as the receiver of the increased production which labor fails to obtain.

The question at this point is, what causes rent to advance? Rent charts can be used in this Lesson to demonstrate the effect of increased production and land speculation (see supplement).

Notes

LESSON V - QUESTIONS

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

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

Effect of Increase of Population

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

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

3. What does increasing population tend to do to the margin of production? (232-233)	Extend it to lower natural levels without lessening total productivity.
4. What is the effect upon rent and wages? (234)	To increase rent and lower wages proportionately (Refer to Law of Rent Charts).
5. Can increasing population raise rent without reducing wages and interest? (234-235)	Yes, increased population makes possible greater powers of cooperation and exchange. This increases production on densely populated localities, increasing their rents over other lands in use, without decreasing wages and interest as a quantity.
6. Is the increase of rent due to what the landholder as such does? (241)	No, it is due to the increase of population.
	(At this point, read or select students to read, "The Story of the Savannah," pages 235-242.)
Effect of Improvements In The Arts Of Production	
7. How do inventions and improvements in the productive arts save labor? (244)	They enable the same result to be secured with less labor, or a greater result with the same labor.
8. What is the effect of labor-saving improvements upon total production? (245)	To increase production. The labor saved by invention can be used to produce either more of the same things, or other things.
9. What is the effect of increased production upon the demand for land? (245)	To increase the demand for land; e.g., (a) there is more intensive use of superior lands; and (b) there is a tendency to use additional land.
10. How does the increased demand for land affect (a) the margin; (b) rent? (245)	(a) It lowers the margin when inferior land is brought into use; (b) it increases rent.
11. How do inventions counteract the fall of the margin?(245-249)	By increasing the productivity of all lands - the best and the poorest.
12. What is the ultimate effect of inventions upon rent, wages and interest? (252)	The cause a larger proportion of the product to go to rent and a smaller and smaller proportion to wages and interest.

13. If machinery could replace human labor entirely, how would wealth be distributed? (252-253)	Wages would be zero (no labor needed) interest would be zero (no new investment of capital needed), and rent would absorb the entire product. People would be supported by charity of landholders.
Effect Of Speculation In Land	
14. As material progress goes on and rent advances, what is the tendency of land holders? (255)	To speculate in land; that is, to expect further advances of rent and to hold land for a higher price than its current value.
15. How does withholding land from use affect the margin of production? (257)	Holding land out of use forces the margin to a lower point than would otherwise be necessary.
16. Does the settler in a new country take only the land he can use? (256)	No, he often takes more than he needs, holding part of it for speculation. (Make blackboard charts showing speculation. See supplement.)
17. Is all the land in any city fully utilized? (257)	No, every city has numerous vacant lots, some of them extremely valuable. (Refer to cases in your city.)
18. Need land be withheld from use completely to lower the margin? (257)	No, if the land is not put to full use of which it is capable, the effect is similar to withholding it from use entirely. City slums, shanties near skyscrapers, and "taxpayers" are illustrations. (Refer to cases.)
19. What is the effect of land speculation upon farm land near the city? (257)	Farm land is held not at agrarian land prices, but at prospective urban prices. To get farm land, it is then necessary to go still further away from the city.
20. Is land speculation always profitable? (258)	No, many speculators are "land poor". (Also point out that land speculators sometimes misjudge the future increase in values and when the "bubble" bursts, they may lose on their holdings.)
21. Since speculation in land tends to lower the margin of production, what is the effect upon the production and distribution of wealth? (259)	(a) To restrict the production of wealth; (b) to reduce wages and interest by forcing labor and capital to less productive opportunities; (c) to increase rent.

22. What is the difference between the effects of speculation in commodities and speculation in land? (260)

Speculation in commodities tends to increase prices and thus to stimulate production of more commodities. Land is fixed in quantity and speculation cannot increase the supply of land.

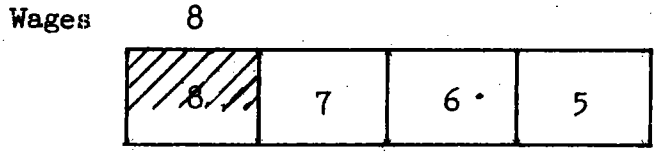
23. What is the limit to the speculative advance of rent? (260)

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

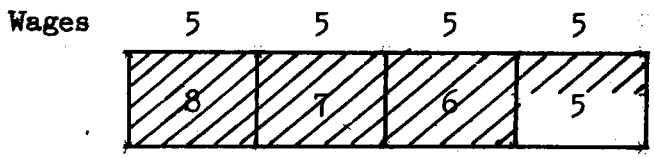
SUPPLEMENT - LESSON V
EFFECT OF MATERIAL PROGRESS

(Parts 1 and 2 of this Supplement tell the basic story. Parts 3 and 4 are elaborations.)

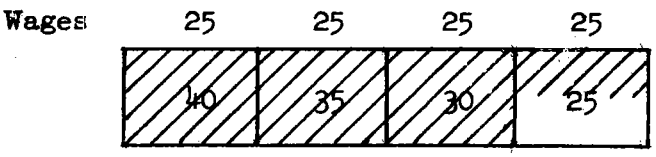
1. INCREASE IN PRODUCTIVITY



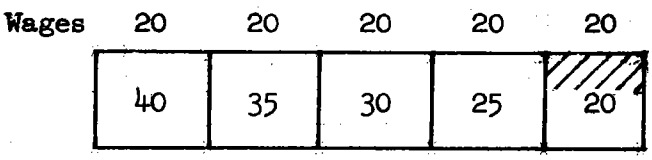
A. Society when the first settlers have settled on the best land (man seeks to satisfy his desires with the least effort). Wages are the whole product, or 8.



B. The same land, but with settlement now spread out to the 5 land. Wages are now 5 everywhere, and rent is the difference.



C. Society after increase in population and improvements in the arts of production have increased productive power. For simplicity, we assume that it has been increased 5 times on all locations. Wages and rent have been increased proportionately on all land. The most productive locations, of course, would be business and industrial sites.



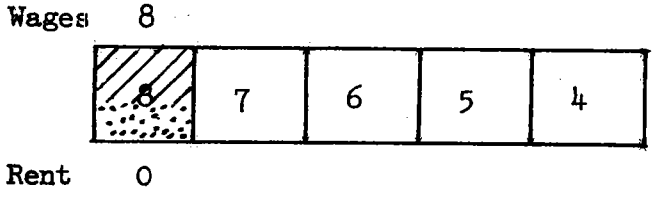
D. The margin of production pushed out to poorer land because of the increased demand for raw materials to go into the increased production. Notice that, although wages have been decreased, and rent increased over Chart C, still wages are very much greater as a quantity than in the frontier days.

Chart D illustrates how, due to increased production, wages may actually rise as a quantity while falling as a proportion of the total production (as compared to frontier days). The natural tendency, if the desirable locations are fully utilized, is for productive power to increase faster than the margin of production falls, thus increasing wages as a quantity. However, another factor, speculation, alters this natural movement, as we shall see in the next series of charts.

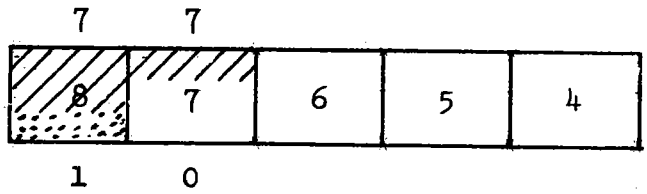
Note: In the foregoing and following charts, the white spaces represent free land. The figures for wages would also include interest, if capital were used. However, for simplicity, we label them "wages," meaning, the return to the active factor in production. (Land is the passive factor, being acted upon.)

2. EFFECTS OF LAND SPECULATION

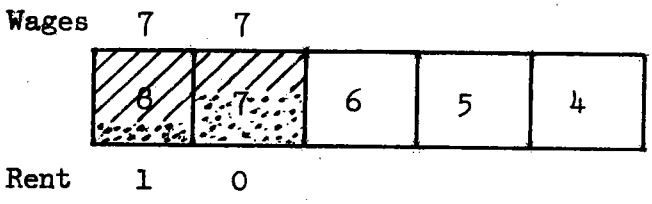
In our previous illustrations we have assumed that the margin was extended only as it became necessary, because all superior land was in use. What happens in the settlement of a country is this: The first-comers, knowing that others will follow, and that where they came from land had a value and that the wealthy class owned large areas of valuable land, take more land than they themselves can use. Our charts show what this speculation does: (The diagonal lines indicate land in use, while the dotted areas indicate speculation.)



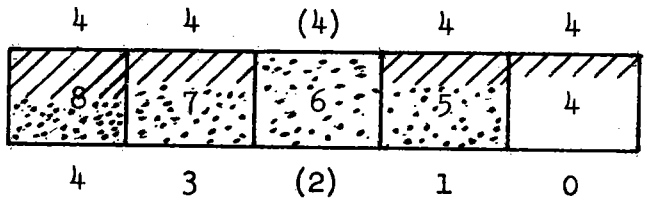
E. The first settlers take more land than they can use.



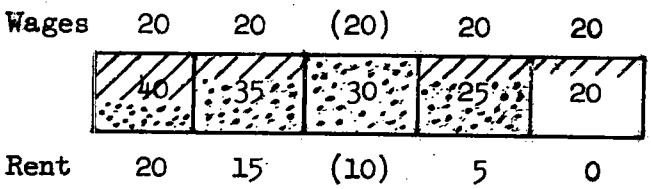
F. Thus the next settlers are forced to poorer land much sooner than they would be if land were freely available.



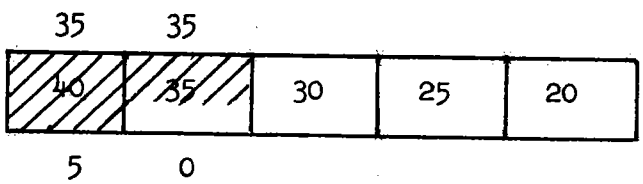
G. The next settlers appropriate in turn more than they can use.



H. And so the following settlers are forced out still farther.



I. The same situation as in Chart D, but with productive power increased, as in Charts C and D.

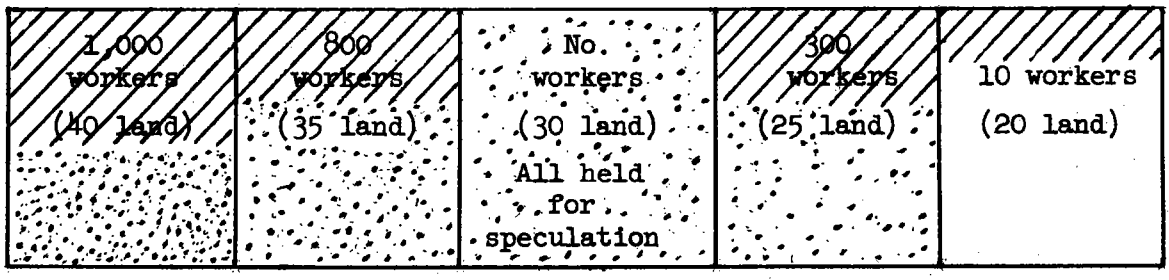


J. Shows what wages and rent would be, after productive power has been increased, if there were no land speculation.

Note that in Chart J the margin of production is higher because the most desirable locations are being utilized, instead of being held for speculation. There are the same number of laborers in Chart J as in Chart I. They are merely accommodated on better land. Consequently, wages have been increased, and rent has been decreased.

3. CIVILIZED SOCIETY WITH LAND SPECULATION

Total Prod.	40,000	28,000		7,500	200
Tot. Wages	20,000	16,000		6,000	200
Wages Per Man	20	20	(20)	20	20



Total Rent	20,000	12,000		1,500	0

K. This chart takes the same situation as exists in Chart J, and adds one other factor: more than one laborer on each grade of land, or location. Here we see that not only has the productivity per worker been increased (due to increased population and improvements in the arts of production), but the total production per area of land has also been increased, due to many workers being concentrated on the same locations. Especially is this true in cities, where there are often thousands of workers to the acre in office buildings and factories.

Here one-half of the best (40) land is in use, with 1000 workers on it. The dotted part of each grade represents idle land, held for speculation. There are 800 workers on the 35 land, none on the 30 land, 300 on the 25 land (farther from the heart of the city), and 10 on the 20 land, which is the margin of production. Wages everywhere are 20, or what a laborer can make working for himself at the margin.

To get the total production, we multiply the number of workers by the grade of land (production per worker). On the 40 land, it is 1,000 x 40, or 40,000. Similarly, to get the total wages on each location, we multiply the number of laborers by the rate of pay per man. On the 40 land, it is 1,000 x 20, or 20,000. The excess production of 20,000 is rent.

Similarly, on the 35 land, the total production equals 800 (number of workers) times 35 (production per man), or 28,000. Total wages equal 800 x 20 (rate of wages per man), or 16,000. The excess of 12,000 is rent. There are no laborers on the 30 land, inasmuch as it is all held for speculation. On the 25 land, the total production equals 300 x 25, or 7,500. Total wages on the 25 land equals 300 x 20, or 6,000. Rent is 1,500. On the 20 land there is no rent, and total wages equal total production: 10 x 20, or 200.

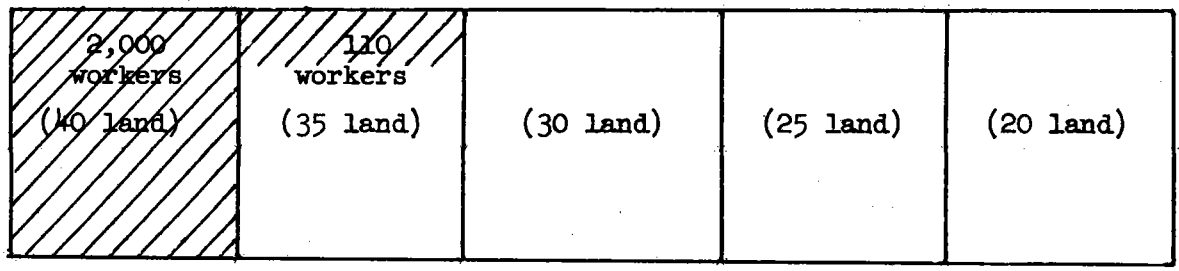
SUMMARY - ADDING TOTALS

Grade Land	No. of Men	Tot. Production	Tot. Wages	Total Rent
40 Land	1,000	40,000	20,000	20,000
35 Land	800	28,000	16,000	12,000
25 Land	300	7,500	6,000	1,500
20 Land	10	200	200	0
	2,110	75,700	42,200	33,500

Notice how much highly productive land is being held out of use, forcing producers (laborers) to use less desirable locations, thus lowering production and wages, and increasing rent (speculative rent) by extending the margin.

4. CIVILIZED SOCIETY WITHOUT LAND SPECULATION

Total Prod.	80,000	3,850
Total Wages	70,000	3,850
Wages Per Man	35	35



Total Rent	10,000	0

L. In this Chart land speculation has been eliminated, permitting laborers to utilize the most productive locations (as they will naturally do, wishing to satisfy their desires with the least exertion). All the 2,110 workers are accommodated on the 40 land and a small part of the 35, leaving all the rest totally free.

Chart L takes the same situation as in Chart K, only land speculation is eliminated. Since only half of the 40 land in Chart K was in use (with 1,000 workers on it), the other half would also accommodate an additional 1,000, without crowding. The 800 workers on the 35 land would move over to the 40 land, and also 200 of the 300 workers on the 25 land.

This would leave 100 workers on the 25 land, and 10 on the 20 land, who would move over and avail themselves of the next best grade, or the 35 land.

SUMMARY - ADDING TOTALS

Grade of Land	No. of Men	Tot. Production	Tot. Wages	Tot. Rent
40 Land	2,000	80,000	70,000	10,000
35 Land	110	3,850	3,850	0
	2,110	83,850	73,850	10,000

Compare these figures with the corresponding ones in Chart K. You will see that production has been increased from 75,00 to 83,850 without using any more laborers or any more or better capital or methods: merely by utilizing the best locations through eliminating speculation. You will also see that wages per man have increased from 20 to 35, and total wages from 42,200 to 73,850 for the same reason.

Although the foregoing charts are not supposed to correspond to any particular factual situations, being purely arbitrary figures to illustrate a general law, nevertheless the amount of idle or unused land depicted in the charts is modest indeed. According to Wayne Heydecker, Director of State Planning for the state of New York (The Feeeman, Feb., 1938) approximately 40% of the area of the average U.S. city is entirely vacant, and the remaining 60% includes areas devoted to streets, parks, and other public uses, as well as the areas used for privately owned structures. Taking into account the total area of our country, rural as well as urban, 65% of our people live and conduct their business on 3/5 of 1% of our land!

LESSON VI

THE INDUSTRIAL DEPRESSION - PROPOSED REMEDIES

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

Suggestions to Teacher

Lesson V dealt with the effects of material progress on the distribution of wealth. The tendency of population growth and new inventions is to increase the demand for land, and so to raise rent at the expense of wages and interest. This natural tendency to the increase of rent is further accelerated by the expectation of such increase, leading to land speculation.

In Lesson VI, we now study the role that land speculation plays in bringing on industrial depressions. In order to show the importance of land speculation, other theories of depression may be brought in (See answer to question 7). The students may be asked to enumerate various theories and the teacher can write them on the blackboard. Then each theory can be subjected to a brief examination. Some of the explanations may turn out to be contributing causes (see question 1), and then the major and constant cause of land speculation can be emphasized. Henry George uses the illustration of a tree almost cut through (basic cause), and then a squirrel hopping from branch to branch (immediate cause) - "causing" the tree to fall (page 280). See also the pyramid illustration (p. 279).

In discussing proposed remedies, George touches on most measures that are still advocated today. Governmental regulation in particular has increased greatly since George's day, and may require fuller discussion than George gives it.

At the end of the Lesson, advise students that the remedy proposed by George will be taken up in Lesson VII and that it will require the balance of the course before being fully understood; therefore the lessons, supplements and text should be studied carefully and with an open mind. All questions about it will be handled in due course.

Notes

The Industrial Depression

1. What are some contributing causes of depression? (263)

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

2. What is the basic cause of depressions? (263-264)

Land speculation.

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

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

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

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

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

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

Theories Of Depression

6. What is the "over-production" theory? (266)

That speculation has increased production beyond the demand for consumption, thus causing a stoppage of production.

7. What is the "over-consumption" theory? (266)

That speculation has caused extravagance beyond the means of the people and the result is a period of retrenchment. (Other explanations may be cited. Examples: Easy credit; inflated stocks; the "business cycle"; the psychological theory that "fear will bring on a depression.")

8. Are these explanations sufficient? Why? (267)

No, they do not explain why people who are willing to exchange their labor for the labor of others are unable to do so.

9. Explain the difference between the effects of speculation in commodities and speculation in land. (267)

Land is fixed in quantity and speculation cannot increase the supply. Speculation in commodities raises the price until production is stimulated, which tends to lower the price again. (Ask for examples.)

The Basic Cause of Depressions

10. What is trade? (268)

The exchange of commodities for commodities.

11. What is the result of a cessation of demands? (269)

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

12. Where must all production begin? (269)

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

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

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

14. What three conditions will restore production after a period of depression? (265 and 281)

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

15. When productive activity is resumed, what is the effect on land values? (281)

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

16. Is the problem of depressions different from the general problem of poverty? (282)

Depressions are merely intensifications of the general tendency to poverty persisting with material progress.

Proposed Remedies

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

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

18. Can skill, industry or thrift eliminate poverty? Explain. (303-310)

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

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

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

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

Theoretically, yes, but it would be practically impossible. (Point out that strikes involve tyrannical and destructive methods; they are struggles for endurance, in which labor starves, capital wastes, and landowners can wait.)

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

No. Cooperatives, when effective, tend to increase production, as do improvements in skills, machinery, inventions, etc. Their ultimate effect is to increase the demand for land, thereby lowering the margin.

22. What is the effect of governmental regulation of industry upon poverty? (319-321)

Governmental regulation may temporarily alleviate poverty, but it does not, and cannot, solve the problem of poverty. It tends to restrict production; requires costly bureaucracy, and encourages evasion of regulations. (When George refers to "the ideal of socialism" he means the ideal of a harmonious and cooperative society, which can only be attained through freedom and natural growth, and not through an economy planned by government.)

23. What is the effect of the Income Tax? (320)

All that George said about it as a proposal has come to pass: inquisitorial methods, bribery, perjury, and lessening of incentive to accumulate wealth.

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

No, it would merely increase the number of landowners. (Currently, splitting up big land holdings is a much advocated reform in many countries. But what about different grades of land - what about new generations as they are born - what about different land uses, and different human capabilities, calling for different land areas?)

In the next Lesson, we will take up the true remedy and its justice.

SUPPLEMENT - LESSON VI



by Arthur S. Otis

THE land in a city block in Washington, D. C. recently sold for $3,000,000. Once upon a time that block of land was worth only $3000. What made it get to be worth a thousand times as much? What gives value to land?

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

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

Unearned income—In the above illustration, since the rent of the land was $10,000 a year and the taxes only $4000 a year, there was $6000 a year which we called profit. Technically, this profit is known as the UNEARNED INCOME from the land. (We are disregarding incidental expenses that the land owner might have.)

It should be understood that a landowner may derive what amounts to an unearned income from land even if he does not rent it to anyone else. A man may own a store and the lot on which it rests. The lot may be one for which he would have to pay $900 a year rent if he did not own it, and he may consider that the lot is worth $900 a year to him. But if he pays only $300 a year in taxes on the lot, he is receiving $600 a year in value which amounts to unearned income.

A fundamental principle—This brings us to a fundamental principle of economics concerning the sale value or sale price of land. THE SALE PRICE OF A PARCEL OF LAND TENDS TO BE EQUAL TO THE AMOUNT OF MONEY THAT WOULD HAVE TO BE

INVESTED TO YIELD AN INCOME EQUAL TO THE UNEARNED INCOME FROM THE LAND.

We can get a clearer understanding of this fundamental principle by considering some analogies.

An analogy—Let us say a YMCA rents rooms at $10 a week. Let us say that with inflation and the growth of the community the demand for rooms in the YMCA is greater than the supply. Jim Brown has found that the YMCA is always full and that having himself obtained permanent possession of two rooms he can sublet one of them at $12 a week, thereby making a profit of $2 a week.

Jim's friend Bill says to him, "How about releasing that extra room of yours and letting me rent it? I'll give you a bonus of $100."

Jim says, "Where could I invest $100 to get an income of $2 a week?"

Bill says, "Well how much bonus do you want?"

Jim thinks to himself, "$2 a week is about $100 a year. How much would I have to invest at say 10% to get an income of $100 a year?" The answer is $1000. So Jim tells his friend Bill that the bonus will have to be $1000. "Why should I take less?" he says.

Bill is glad to invest some money where he can get a 10% yield so he agrees to pay Jim the bonus of $1000 to release the room so that he can obtain the profit from it.

In this case the bonus or "sale price" of the room is the amount of money that would have to be invested to yield a return equal to the profit made on the room.

Another analogy—Now let us take another case. Mr. Clark, the "owner" of a baseball team has contracts with all his players. He has a very valuable player, Jack, whom Mr. Black, the "owner" of another ball team would like to hire. Black says to Clark, "If you will sell me Jack's contract I'll give you a bonus of $10,000. Clark says, "Jack brings me in a clear profit of $5000 a year. Where could I invest your bonus of $10,000 to get an income of $5000 a year?"

Black says, "Well, how much will you sell Jack for?"

Clark thinks to himself, "How much would I have to invest at say 10% to get an income of $5000 a year?" Answer: $50,000. So he says, "Make it $50,000 and you can have him." The player is "sold" for $50,000!

Now we can enlarge our fundamental principle to read as follows: ANY SOURCE OF INCOME WHICH YIELDS CLEAR PROFIT WILL TEND TO HAVE A SELLING PRICE EQUAL TO THE AMOUNT OF MONEY THAT WOULD HAVE TO BE INVESTED TO YIELD THAT SAME CLEAR PROFIT.

THE SALE PRICE OF A PARCEL OF LAND IS MERELY THE BONUS THAT A PROSPECTIVE OWNER IS WILLING TO PAY THE PRESENT OWNER FOR THE PRIVILEGE OF REAPING THE UNEARNED INCOME FROM THE LAND.

Unearned income increases with rental value—Let us consider a piece of land on which the taxes are $300 a year. Let us say the land brings in a net rent of $900 a year. The land therefore yields an unearned income of $600 a year. This is the income at 6% of an investment of $10,000. So the sale price of the land might be about $10,000.

Now let us say that the city grows and the rental value of that land becomes $1200 a year. If the taxes remain the same ($300 a year) the unearned income becomes $1200 minus $300, or $900 a year. Since $900 is 6% of $15,000, the selling price of the land would tend temporarily to be $15,000.

(Actually, the taxes would tend not to remain the same because as the selling price rose, tax assessors, taking account of that fact would probably increase the assessed value of the land. Consequently, even though the tax RATE remained the same the AMOUNT of the tax might increase. This would mean that the unearned income would be somewhat less than $900 a year and hence the selling price would be somewhat less than $15,000.)

It can be shown by algebra that if, in the above instance, the rental value went up from $900 to $1200 a year (the tax rate remaining constant) the amount of the tax would tend to become $400 a year, the unearned income would tend to become $800 a year, and the sale price would tend to become about $13,333. That is, if the rental value increases ⅓, so do the taxes, the unearned income, and the sale price.

If the rental value then rose to $1500 and then to $1800 a year, the taxes, unearned income, and sale price would tend to increase as shown in the following table.

Rental value	Taxes	Unearned income	Sale price
$ 900	$300	$ 600	$10,000
1200	400	800	13,333
1500	500	1000	16,666
1800	600	1200	20,000, etc.

Thus we see that the sale price of land tends to increase in proportion to its rental value.

Why rental values increase—We come now to the question as to why rental values of land tend to increase. The reason is based upon the natural tendency for communities to grow in population.

Let us first consider business property. Let us take the case of a corner drugstore. Let us say that over a period of ten years the population of the town has doubled. Presumably this means that the number of persons passing the store in a day has doubled and the number of customers has doubled. Presumably this means that the volume of sales has doubled and the profits have doubled. The store can therefore afford to pay more rent. And the landlord knowing this naturally charges more rent. That is why an increase in population tends to cause land rents to increase.

Now let us consider residential property. As a town grows in population residence in it becomes worth more and more for two reasons. First, living in it becomes more desirable and life is happier and safer because of the provision of paved streets, police and fire protection, schools, churches, libraries, museums, theaters,

hospitals, parks, playgrounds, etc., and because of the convenience of obtaining water, gas, electricity, the convenience of larger stores with greater variety, etc. The second reason is that it is possible to make a better living financially in a large community. Businesses make better profits and can pay higher wages.

Second fundamental principle—This brings us to the second fundamental principle of economics in relation to land values. THE PRESENCE OF A COMMUNITY GIVES LAND ITS RENTAL VALUE, AND AS THE COMMUNITY GROWS THE RENTAL VALUE OF LAND TENDS TO INCREASE.

This does not mean that there are not other ways in which the desirability of land can be increased. Thus, a residential plot of land which is bare will be increased in value if beautified with trees, shrubbery, and lawn. But it does mean this: A man may buy a parcel of land in a city; he may place the land in charge of an agent and move to Europe. The agent may rent the land, as for example to become a parking lot, and from the income so derived the agent may pay the taxes and all assessments and his own fee. The owner may never see the land for many years, may never build anything on it or send a penny to the agent to improve it. Yet the owner may return some day to find the land worth ten or twenty times as much as he paid for it. The increase in the value of the land may be wholly the result of the growth of the community.

Unearned increment—Any increase in the sale value of land resulting merely from the growth of the community and not as the result of any effort or expenditure on the part of the landlord, is known as the UNEARNED INCREMENT in land value—meaning the unearned increase in value.

The UNEARNED INCREMENT in land value (the amount by which the sale value exceeds the original cost) is not to be confused with the UNEARNED INCOME from the land (the amount by which the rental value exceeds the taxes).

Why sale prices increase—We are now in a position to see why sale prices of land may rise—as from $3000 to $30,000 to $300,000 to $3,000,000. It is because as communities grow the rental value of land can increase tenfold, a hundredfold, a thousandfold, and because the unearned income from land tends to increase in proportion to rental value, and because sale prices of land tend to increase in proportion to the unearned income from the land.

May unearned income be prevented?—The reader may wonder at this point whether there is a way to prevent land from yielding an unearned income and so to prevent landowners from obtaining profits from the resale of land.

The question is exactly analogous to asking whether it would be possible to prevent registered tenants in a YMCA from making a profit by subletting rooms and thus to prevent them from being able to charge a bonus for the possession of a room. The obvious answer in that case is that if the YMCA charged the full rental value of the rooms, that is, charged the registered tenants the same rent that they were charging the persons to whom they sublet, there would be no profit in subletting.

Thus, we saw how Jim Brown, as a registered tenant in the YMCA, was able to sublet a room for $12 a week for which he paid only $10 a week rent to the YMCA, thus making a profit of $2 a week (unearned income).

Obviously if the YMCA raised its rent to $12 a week (the true rental value of the rooms) there would be no unearned income to be had subletting a room. Jim would have no further use for his extra room and would release it. Any one who wished to rent it could do so without the payment of any bonus.

In a similar way a town could prevent landowners from obtaining an unearned income from land and so prevent them from making a profit from the resale of land.

For example, let us say that a given town, wishing to avoid unearned incomes from land, levies taxes equal to the rental value of the land. A piece of land worth $300 a year to the owner or to any tenant or prospective tenant is taxed at $300 a year.

There is no profit to be had in owning land merely to lease because tenants cannot afford to pay any more in rent than the taxes amount to. This means that all sale prices are nominal.

Thus, let us say that Mr. Blake owns some land that is taxed at $300 a year and that he cannot use the land. Let us say that Mr. Adams can use the land. Adams might offer to lease the land from Blake at $300 a year. Blake would say, "There is no profit in that for me; I'll just sell you the land for $1 and you can pay the $300 a year in taxes. So Adams buys the land for $1.

Now let us say that with the growth in population the lot increases in rental value to $400 a year. This is shown by the fact that Mr. Lewis offers to rent the lot from Adams at $400 a year. Adams accepts the offer and leases the lot to Lewis. The taxes are raised to $400 a year.

Adams says to Lewis, "There is no profit in this deal for me; I'll sell you the lot for $1. So Lewis buys the lot for $1. Adams made no profit from the resale of the land even though its rental value had increased.

As the population grows and rental values increase, taxes are increased in proportion. There is never any profit to be had in leasing land (no unearned income to be had from owning land). Consequently any landowner who cannot make use of his land himself will sell it for $1.

Another fundamental principle—This brings us to another fundamental principle: IF THE TAXES ON LAND ARE KEPT EQUAL TO THE RENTAL VALUE OF THE LAND, THERE CAN BE NO UNEARNED INCOME FROM THE LAND AND THE SALE PRICE OF THE LAND WILL NOT INCREASE.

Unearned decrement—It has been said that if landlords are prevented from obtaining an unearned increment in the value of their land (increase in sale value) they should not be required to suffer any UNEARNED DECREMENT (a loss because of the decrease in sale value of land).

This raises the question as to whether it would be possible to hold land prices stable WHERE THEY ARE NOW, and in that way avoid further un-

earned increments and also avoid any unearned decrements.

The answer is yes. For example, let us say that a parcel of land has been taxed $300 a year when the rental value was $900 a year, thus affording an unearned income of $600 a year. The selling price of the land, as we have seen, might be $10,000 (because to obtain an income of $600 a year at 6% one would have to invest $10,000).

Let us say that the community has grown and that the rental value of the land has increased from $900 a year to $1000 a year—an increase of $100 a year. If the taxes are raised $100 (from $300 to $400) the unearned income will remain at $600 a year (the amount by which the rental value, $1000, exceeds the taxes, $400). Consequently the sale value of the land will tend to remain constant at $10,000. The landlord will not be able to obtain any profit (unearned increment) by selling the land.

Similarly, if in this case the rental value of the land should drop from $900 to $800 a year for any reason, the taxes would be dropped from $300 to $200 a year, and the unearned income would remain at $600 a year. Consequently the sale price would remain at $10,000. The landlord would suffer no unearned decrement in land value by selling the land.

A new basis for taxes—It should be understood that in order to maintain the STATUS QUO so as to prevent any FURTHER unearned increments or any unearned decrements, taxes would need to be based not upon sale values but upon rental values. That is, we would need to do away with assessments of sale values and assess rental values. Then unearned increments and decrements could be avoided by adjusting the taxes so that they go up and down exactly in accordance with the rental values.

Economic effect—We have seen how it might be necessary, for example, to increase the tax on a parcel of land from $300 a year to $400 a year, because of an increase in the rental value of the land occasioned by an increase in population, so that the unearned income of the land would not increase (remaining at $600 a year), and so that the landlord would be prevented from obtaining a profit (unearned increment) from the sale of the land.

Presumably this need to increase taxes would apply generally over the town and would therefore result in a substantial increase in tax revenue. This increased tax revenue would be obtained without financial injury to anyone because the additional tax money so received would be merely the money that would otherwise go to landowners as additional unearned income.

Presumably this increase in tax revenue would benefit the community, enabling it to have better schools, better hospitals, better streets, etc., all of which would increase the standard of living.

Summary—The amount that a prospective tenant will offer to pay the owner of land in rent for the use of the land is called the RENTAL VALUE of the land.

The amount by which the rental value of a parcel of land exceeds the taxes on it is called the UNEARNED INCOME from the land.

The SALE PRICE of a parcel of land tends to equal the amount of money one would have to invest in other ways to obtain the same income as the ownership of the land affords.

The presence of the community gives land its rental value. As population increases rental values tend to increase. As rental values increase, unearned incomes tend to increase in proportion, and as unearned income from land increases, its sale value tends to increase in proportion. Consequently, as rental values increase sale values tend to increase in proportion.

An increase in the sale value of land is known as the UNEARNED INCREMENT in the value of the land.

Landlords may be prevented from profiting by the increase in sale value of land resulting from the growth of the community, by basing the taxes upon rental value instead of sale value and then by adjusting the taxes on the land so that they increase (or decrease) in amount equal to the increase (or decrease) in the rental value of the land. This causes the unearned income to remain constant and prevents the sale value from increasing.

The effect of stabilizing land values in this manner is beneficial to a community because of the resulting increase in tax revenue. This increase in tax revenue is money that would otherwise go to landlords in the form of increased unearned income.

VOLUME 64 OF OUR JOURNAL TO BE BOUND

Reprinted, with permission, from the January 1952 Machinists' Monthly Journal

LESSON VII

THE REMEDY - ITS JUSTICE

Reading Assignment: Book VI, Chap. 2; Book VIII, especially Chaps. 1-3.

Suggestions to Teacher

In Lesson VI, various remedies for poverty and depressions were discussed and found insufficient. In this Lesson we take up the true remedy. Before asking question 1, point out that a scientific solution to any problem must deal with the cause of the problem; that we have traced the cause of the problems we have been studying, we looked at all other alternatives, and are now ready for the solution.

After the remedy is given, discuss the concept of common property in land. (See Supplement.) Then note that George, on p.329, is willing to subject his remedy to several tests: "It must be consistent with justice; it must be practicable of application; it must accord with the tendencies of social development, and must harmonize with other reforms." Discuss the concept of justice which is the particular concern of this Lesson - "to each his due."

Often students immediately ask, "How are you going to do it?" They should be assured that this will be fully discussed in due course, but priority is given to justice which is the main subject of this Lesson. The last set of questions in Lesson VII does, in fact, give clues on how the remedy can be applied.

Sometimes George's remedy is mistaken for "Socialism." Part 2 of the Supplement of this Lesson should help to clear up this misunderstanding.

Notes

QUESTIONS

LESSON VII

The Remedy

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

"We must make land common property."

2. What is "common property in land"? (See Supplement)	Equal rights of all to land.
Its Justice	
3. Do all men have equal rights to existence? (338)	Yes.
4. Can man exist without land? (338)	No, it is the storehouse from which his needs must be supplied.
5. Do all men have equal rights to land? (338-339)	Yes, an equal right to existence implies an equal right to the use of land, which is necessary for existence.
6. Can there, then, be any justification for the private ownership of land? (339-340)	No, private ownership by some deprives all others of their equal rights.
7. What constitutes the rightful basis of private property? (334)	The right of a man to the fruits of his own exertion, to enjoy, to destroy, to use, to exchange, or to give.
8. Is private property in wealth (the things produced by labor) justified by this principle? (334)	Yes, a man can claim a clear title to that part of wealth which is due to his own exertions.
9. Is private property in land in accordance with the rightful basis of property?(336-337)	No, land is not the product of labor.
10. How does the term "real estate" lead to confusion in determining the rightful basis of property? (337)	By failing to distinguish between a house (wealth) which may rightfully be owned by an individual, and the lot on which it stands (land) which is not rightfully private property.
11. What is the origin of land titles? (342)	Conquest, force, and fraud. (Examples may be found in Alfred Chandler's book, Origin of Land Titles.)
12. Does priority of occupation give an individual exclusive right to own land? (344)	No, since all men have equal rights to land, late comers also have their rights. (See illustrations of banquet, theatre, etc., pp 344-345. May be read aloud in class.)
The Rent of Land	
13. If land is justly common property, how can a man retain undisturbed use or possession of land and yet satisfy the equal rights of all? (344)	By paying its rent to the community.

14. How does payment of rent to the community satisfy fully the equal rights of all? (343-344)	Rent is determined at the margin of production. It measures exactly the difference between the advantages of a particular piece of land and land which may be had freely by any member of the community.
15. Does rent arise from anything the landowner as such has done? (365)	No.
16. Does rent justly belong to landowners? (365)	No.
17. To whom does rent justly belong? Why? (366)	To the community, because rent represents a value created by the whole community.
18. Would it be unjust for the community to collect all rent without compensation to landowners? (365-366)	No, the community would merely be taking that which is rightfully its own.
19. Would compensation to landowners be just? (360-361)	No, the landowners would then be receiving the equivalent of the rent they now collect, and thus the community would not be receiving what is rightfully its own. (See Chap. 11 of A Perplexed Philsopher by George for a fuller discussion of the compensation question.)
20. How would private ownership of improvements and personal property (wealth) be affected by common property in land? (367)	Everyone, including the present landowners, would retain ownership of his improvements and personal property.

SUPPLEMENT - LESSON VII

1. The Meaning of "Common Property in Land." 2. Georgism Vs. Socialism

1. THE MEANING OF "COMMON PROPERTY IN LAND"

Henry George says "We must make land common property." This statement requires explanation. Basically, there are three types of property: common; government; and private.

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

Government (or public) property is that which belongs to the state and is subject to the direction of the government.

Private property is that which an individual (or group of individuals) has the exclusive right to possess, enjoy and dispose of as he (or they) sees fit.

It is thus seen that common property is not government property. Common property in the ocean is generally recognized; the ocean does not belong to any government. And common property is different from private property. Common property permits of private use, but implies an obligation to the rest of the community, since the rights of others must be recognized.

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

To effectuate common property in land, Henry George proposed that individuals retain title to land, and be assured of fixity of tenure and undisturbed possession. He showed that the rent of land expresses the exact amount which the individual should pay to the community to satisfy the equal rights of all other members of the community. This payment is all that is required to "make land common property."

QUOTATIONS

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

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

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

THOMAS JEFFERSON - "The earth belongs in usufruct to the living....Whenever there are in any country uncultivated lands and unemployed poor, it is clear that the laws of property have so far been extended as to violate natural right. The earth is given as a common stock for men to labor and live on." (Letters to James Madison)

ABRAHAM LINCOLN - "The land, the earth God gave to man for his home, sustenance and support should never be the possession of any man, corporation, society or unfriendly government, any more than the air or water, if as much. An individual, or company, or enterprise requiring land should hold no more than is required for their home and sustenance, and never more than they have in actual use in the prudent management of their legitimate business, and this much should not be permitted when it creates an exclusive monopoly." (Lincoln and the Men of His Time, by Robert H. Browne)

2. GEORGISM VS. SOCIALISM

GEORGISM: The philosophy of Henry George which holds that land, the free gift of nature, belongs to all men in common and can rightfully be subjected to private ownership only with due regard for the rights of others; and, as a corollary, that the wealth produced by labor rightfully belongs to the producer. To implement this philosophy, Georgism proposes that the rent of land be paid by the owners of land to the community for social purposes, and that all products of labor, all trade and commerce be freed of taxes and other burdens.

SOCIALISM: A political and economic theory of social organization based on collective or governmental ownership and democratic management of the essential means for the production and distribution of goods. Socialism favors great extensions of governmental action. COMMUNISM (at present often used interchangeably with Socialism): Any system of social organization in which all goods are held in common. (Webster's New International Dictionary Unabridged, 1955).

COMPARISON OF THE PROPOSALS OF GEORGISM AND SOCIALISM

Proposals regarding:	GEORGISM	SOCIALISM
LAND	Private ownership with due regard for the rights of others; use controlled by individual title holder.	Governmental ownership; use controlled by government.
RENT	Collected as sole public revenue for social services.	Collected as part of over-all governmental plan.
CAPITAL	Private ownership.	Governmental ownership.
INTEREST	Retained by private owners of capital.	Confiscated by government.
LABOR	Free access to natural materials and freedom to choose direction of effort.	Directed by government. "From each according to his abilities.
WAGES	In proportion to contribution to production.	To each according to his wants." (Louis Blanc)
GENERAL	Private enterprise and competition in the open market - a free field and no favors. Recognition of the natural rights of the individual.	Competition and private enterprise to give way to direction by government. No individual rights except as granted by the government.

"We differ from the Socialists in our diagnosis of the evil, and we differ from them in remedies. We have no fear of capital, regarding it as the natural handmaiden of labor; we look on interest in itself as natural and just; we would set no limit to accumulation, nor impose on the rich any burden that is not equally placed on the poor; we see no evil in competition, but deem unrestricted competition to be as necessary to the health of the industrial and social organism as the free circulation of the blood is to the health of the bodily organism - to be the agency whereby the fullest cooperation is to be secured. We would simply take for the community what belongs to the community, the value that attaches to land by the growth of the community; leave sacredly to the individual all that belongs to the individual; and treating necessary monopolies as functions of the State, abolish all restrictions and prohibitions save those required for public health, safety, morals and convenience." - From The Condition of Labor by Henry George.

LESSON VIII

APPLICATION OF THE REMEDY

Reading Assignment: Book VIII

Suggestions to Teacher

In Lesson VII, we discussed George's remedy and its justice. Having first subjected this remedy to the test that "it must be consistent with justice," we are now ready to put it to the test that "it must be practicable of application."

This Lesson is in many ways the focal point of interest of the course. Students are apt to think of numerous questions about application, particularly as to how various individuals and property owners would be affected. Some of these questions are taken up in this Lesson, but some are more properly dealt with in Lesson IX - "Effects of the Remedy."

Notes

QUESTIONS

Ownership and Use of Land

1. What security does a man require to warrant his building upon or cultivating land? (398)	Security of possession of the product of his labor.
2. Is private ownership of land necessary to encourage the erection of buildings and the cultivation of land? (399-400)	It is not. The use of leased land for building and agriculture prevails everywhere to a greater or less extent. (Give local examples.)
3. How does the treatment of land as private property stand in the way of its proper use? (401)	The individual owner is permitted to prevent others from using what he cannot or will not use or improve himself.
4. If land were treated as common property when would it be used? (401)	As soon as there was a need for it.
5. In working out a method for treating land as common property, what right should be safeguarded? (398-403)	The private right to improvements.

Application

6. What methods might be employed to treat land as common property? (405)	(a) Public purchase of land; (b) confiscation of land; (c) confiscation (public collection) of rent.
7. What objection is there to public purchase of land? (405)	It is unjust for the community to purchase what rightfully belongs to the community.
8. Is it necessary to confiscate land? (404-405)	No. It is merely necessary to confiscate rent.
9. What is the practical method proposed by George for treating land as common property? (406)	To appropriate rent by taxation.
10. How would land titles be affected by this proposal? (405)	They would remain undisturbed.
11. Is there any existing machinery for public collection of rent? (405)	Yes. We already take some rent in taxation. We need merely take it all (or most of it). (Note that George suggests that landowners might be left a percentage of the rent. See Supplement.)
12. What does George's proposal require with respect to other taxes? (406)	To abolish all taxation save that upon land values. Appropriation of rent would thus be substituted for all taxes now imposed on Labor and Capital. (Either at this point or at the end of the Lesson the Supplement may be discussed.)

The Canons Of Taxation

13. What are the standards, or canons, to which taxation should conform? (408)	Taxation should: a) Bear as lightly as possible upon production. b) Be easily and cheaply collected and fall as directly as may be upon the ultimate payers. c) Be certain. d) Bear equally, so as to give no citizen an advantage.
14. Name some types of taxes which bear upon production. (409-410)	Taxes on sales, manufacturers, commerce, capital, improvements. Illustrations of the above: sales tax, Federal cigarette tax, Federal transportation tax, property tax (to the extent levied on improvements).

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

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

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

It would not bear upon production. It would stimulate the maximum use of valuable lands, on which greater production could be obtained.

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

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

18. How does the taxation of commodities affect their price? (416)

The taxation of labor products increases their price by increasing the cost of production and checking supply. (Refer to the practice of "pyramiding" the tax; see p. 415.)

19. Does a tax on rent enable the owner to pass it on to the user of land in the form of higher rent? (416)

No. Since land is not a thing of human production, taxes upon rent cannot check supply and therefore raise rents. The owner cannot collect more rent, as rent is determined by the margin of production. Thus, an effort by the landowner to shift the tax to the tenant by raising his rent would make the rent higher than the land was worth, and the tennant would move. (This principle does not apply to taxes on buildings, which may be shifted.) (See Supplement.)

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

No.

a) It does not increase the rent of land.
b) It does not reduce the supply of land.
c) It does not reduce the supply of commodities.
d) It cannot increase prices on commodities.

(Note: This question has to do with whether a shopkeeper can raise the price of his products in order to pay his rent. This is also discussed in the Supplement.)

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

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

22. Which conforms more closely with the tenets of justice - taxing wages or taxing rent? (420-421)

Taxing rent. A tax on wages takes from laborer what is rightfully his, the fruits of his exertion. Rent is not produced by the individual. It is produced by society as a whole, and therefore justly belongs to society.

23. What does Henry George mean by "the equality ordained by nature"? (420-421)

A condition under which no one will have an advantage over another except by his industry, skill or intelligence, and each will obtain what he fairly earns.

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

A tax on land values.

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

Yes. (a) Tax assessors habitually estimate these two values separately.
(b) Frequently land is owned by one person and the buildings by another.
(c) If buildings are destroyed, the land value remains.

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

That the significance of land value taxation be widely understood. (The Henry George School is seeking to educate the public in this respect. When there are sufficient numbers of adherents, land value taxation will become a public issue. Politicians follow public opinion.)

SUPPLEMENT - LESSON VIII

1. How Land Value Taxation Can Be Applied
2. Related Questions
3. A Sound Business Principle
4. Can the Land Value Tax Be Shifted?

1. HOW LAND VALUE TAXATION CAN BE APPLIED

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

Example: Assume a present real estate tax of 3%, i.e., 3% on land and 3% on buildings. The change could be effected by gradually increasing the tax rate on land and gradually decreasing it on buildings. The first year, the land value tax could be stepped up to 3¼% and the building tax down to 2-3/4%; and so on each year until, after a 12-year period, the tax rate would be zero on buildings and 6% on land (which we assume would approximate the full rent of land). Other taxes should of course also be abolished one by one.

The following chart shows how different properties would be affected:

	A. Bldg. - 0 Land-$5,000	B. Bldg.-$2,500 Land-$5,000	C. Bldg.-$5,000 Land-$5,000	D. Bldg.-$10,000 Land-$5,000
Present tax				
3% on Bldg. -	0	$ 75	$150	$300
3% on Land -	$150	150	150	150
Total tax -	$150	$225	$300	$450
Proposed tax				
None on Bldg.-	0	0	0	0
6% on Land -	$300	$300	$300	$300

It will be seen that under the present system the owner who keeps his land idle (A) or underveloped (B) pays less than the owner who fully improves his land (C) and (D). Under the proposed tax, A. and B. will pay more than at present, C. will break even, and D. will gain. Thus the tendency will be to encourage improvements.

WOULD THE TAX BASE BE DESTROYED? The above example assumes that a tax equal to the interest rate on the capitalized value of land will absorb the rent. (The selling price of land is simply the net rent capitalized. See Supplement to Lesson VI, "What Gives Value to Land?") But with the full collection of the rent of land, the selling price, or capitalized value of land would tend to disappear. Would we then be destroying the base on which the tax is levied? Not necessarily, for a land value can still be computed based on the gross rent whether or not land has a selling price.

Another method would be to begin by increasing the tax on land value (selling price); but after a certain point is reached the base of taxation to be switched to annual rental value. The tax rate would then be directly on the rent.

Still another method would be to tax the selling value at a high rate so as to collect all but a small portion of rent which the landowner would retain. This net rent would continue to be capitalized and the tax rate would continue to be imposed on the selling value.

2. RELATED QUESTIONS

SHOULD 100% OF THE RENT BE COLLECTED? Strictly speaking, yes. Henry George, however, suggested (in Progress and Poverty, p. 405 and 407) leaving a percentage of rent to landowners, enough to induce them to continue holding their land, to collect the rent from tenants and to turn over all but their percentage to the public treasury. Between 5% and 10% would be a reasonable "commission"; thus there would be a 90%-95% tax on rent.

It should be borne in mind the "Single Tax" is not really a tax as are other taxes. It is simply the community collection of rent. Its primary purpose is to raise wages and extirpate poverty, and only secondarily is it a means to raise public revenue. It is only presented as a "tax" as a practical matter, in deference to existing forms and methods.

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 around the country do not give the true value of land. Furthermore, rent is disguised in numerous ways: for instance, it figures largely in stock dividends.) 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 economics 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 would meet all legitimate needs of government. Others say that 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 the public.

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

Another proposal is to let each level of government impose the tax directly on respective types of land - municipalities on land within its area; states on land within its area 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.

QUOTATIONS

CHIEF JUSTICE JOHN MARSHALL: "Land, for example, has in many, perhaps in all states, been granted by the government since the adoption of the Constitution. This grant is a contract, the object of which is that the profits issuing from it shall inure to the benefit of the grantee. Yet the power of taxation may be carried so far as to absorb these profits. Does this impair the obligation of the contracts? The idea is rejected by all." (Providence Bank Case, 4 Pot.956)

JUSTICE LOUIS D. BRANDEIS: "I believe in the taxation of land values only."

THEODORE ROOSEVELT: "The burden of municipal taxation should be so shifted as to put the weight of taxation upon the unearned rise in the value of land itself, rather than upon the improvements."

SURGEON-GENERAL WILLIAM C. GORGAS: "The single tax would be the means of bringing about the sanitary conditions I so much desire."

3. NATURAL PUBLIC REVENUE IS BASED ON A SOUND BUSINESS PRINCIPLE

Most Americans are familiar with payments made for the use of space. The most common space payments are for use of residential, hotel, office, factory, store and storage space. Others are for advertising space, travel accommodations and seats in places of entertainment. People rent display space in everything from carnivals to art galleries. Even air space is rented over radio and television channels. Some very large buildings have been built on leased air space over rail and terminal right-of-ways.

Newspapers and magazines sell advertising space. The space is made more valuable by news items, feature articles, editorials, sports, comic and financial sections, all of which attract more readers. It is sold (rented) at a price which takes into consideration the number of readers the advertiser can expect to reach.

The value of space in an office, factory, warehouse or mart building is very similar to the value of ground areas on which people build their communities. These buildings have heat, light, power, water and air-conditioning. They offer such fire, policing, and sanitary services as are warranted. These buildings are swept and cleaned as are city streets, and like cities, they have their own form of transportation, the elevators. For all this space and service one single charge is made, usually calculated on a square foot basis, with higher charges being made for the best exposure and convenience.

Subject to health and safety regulations, the tenant and title holder are free to decide how they will use the space and services they have contracted for in private industry. But whether or not they make the best use of this space, or whether they make or lose money, good business practice demands that the space charge be fully paid at the market price.

In hundreds of millions of yearly contracts for purchase of rental of space this same principle prevails; indeed the idea of payments based on "ability to pay" would be unacceptable to all parties to the contracts, with very few exceptions. The collection of RENT-of-land, or Natural Public Revenue, is based on exactly the same principle as the collection of payment for the use of any privately provided space with its attendant services. (However, there is this difference to remember: Land title-holders do not provide the services available to their land areas. The general public provides and pays for these.)

Only in the payment for space freely provided by nature and for services provided by government and private producers have we neglected to apply the principle of "pay for what you get." - From Let's Abolish Taxes by Noah D. Alper.

QUOTATIONS

WINSTON CHURCHILL: "I have made speeches to you by the yard on the taxation of land values and you know what a strong supporter I have always been of that policy."

LLOYD GEORGE: "It is all very well to produce 'Housing of Working Class' bills, they will never be effective until you tackle the taxation of land values."

SUN YAT SEN: "The land tax as the only means of supporting the government is an infinitely just, reasonable, and equitably distributed tax."

LEO TOLSTOY: "The method of solving the land problem has been elaborated by Henry George to such a degree of perfection that, under the existing State organization and compulsory taxation, it is impossible to invent any other better, more just, practical and peaceful solution."

4. CAN THE LAND VALUE TAX BE SHIFTED TO THE TENANT?

The price of all goods, services or land is determined by the law of supply and demand. Anything and everything that affects the supply or demand for anything automatically affects the price of it.

It is common knowledge that a tax on commodities can be and generally is, passed on to the buyer. The reason is that the tax itself will reduce production by adding to the cost of production. Our incomes are limited. The more taxes we pay, the less we have left for commodities - and the less demand, the less production. Thus, the supply of commodities is lessened by the imposition of a tax on commodities. But nothing that a landowner, a government, or a consumer can do will increase or derease the supply of land.

By the Law of Rent, the rent of land is determined by the excess of its production (with the same application of labor and capital), over that of the least productive land in use. In circumstances where there is no free land, the landowner is already claiming as rent all that the tenants can possibly pay.

The supply of land is fixed by nature. A tax on land values does not add to the price of land; on the contrary it reduces the price of land by putting more land on the market.

A tax on the value of all land would also be applied to land which is being held out for use for an expected increase in price. A great deal of land in this country is so held. When the owner of unused land is compelled to pay the same tax on the value of his land as the owner of improved land of equal desirability, he must either use the land or dispose of it. This will bring more land into use. Hence, the result would be a relative increase in the amount of land offered for use as compared with existing demand.

With more land being offered in the free market, the landowner could not ask more rent; he would have to ask less. He could not pass the tax on to the tenant, for the reason that the landowner, who is already demanding as much rent as he can get, cannot demand more rent unless he is able to recuce the available supply of land. It is manifestly impossible for him to do that when more land is being forced on the market by the tax on land values, which reduces the share of rent which the landowner can retain.

Nor can a merchant pass on the rent he pays to the landowner by raising the price of the products he sells. The price of a product (demand being equal) depends on its cost of production under the least favorable conditions; that is, at the margin of production. The rent of land absorbs all the advantages of superior location. A merchant must pay more rent for a more favorable location because he will do more business there, but he cannot increase the price of his products to pay the higher rent. Either he will do a volume of business to warrant his using the superior location, or he will cease business on that site. Thus, the tax on land values would not be passed on into the price of products.

The general principles which determines the incidence of taxation are these: A tax upon anything (or upon the methods or means of production of anything) the price of which is kept down by the ability to produce additional supplies, will by increasing the cost of production, check supply. This will add to the price of that thing, and ultimately fall on the consumer. But a tax upon anything of which the supply is fixed, or monopolized, and of which the cost of production is not therefore a determing element, as it has no effect in checking supply, does not increase prices and falls entirely on the owner.

See the pamphlet, Why The Landowner Cannot Shift The Tax on Land Values by Henry George.

LESSON IX

EFFECTS OF THE REMEDY

Reading Assignment: Book IX

Suggestions to Teacher	Notes
In this Lesson we are ready to consider the probable effects of George's remedy on economic, social and individual life. Our anticipations are based upon what we know of human nature and how people behave under different conditions. In discussing the effects, refer back to the Laws of Distribution and the margin of production. The deductions as to what is likely to happen under "the Single Tax" are reinforced by studies of land value taxation now in practice. See Supplement. Note that nowhere has the remedy been applied fully. But communities which do have partial applications may be compared with communities similar in other respects but which do not apply land value taxation. Henry George has been criticized for offering an insufficient plan for a social order. This is because he does not believe in a "planned economy." He was certainly conscious of capital and labor, and his "plan" for them is to give them freedom of opportunity. George proposes no elaborate reconstruction of society, and no remaking of human nature. He accepts human beings as they are and he is willing to let them develop according to their nature, which he believes is essentially good. He recognizes that social progress must be a growth; that it cannot be planned or manufactured. The touchstones of Henry George's economic order are Liberty and Justice.	

QUESTIONS

Effects Upon Production And Distribution

1. What would be the effect on production if taxation of land values were substituted for taxes on wages and interest? (433-436)	Production would be stimulated because: a) Better natural opportunities would be open to labor. b) With men no longer taxed for their energy, industry, skill and thrift there would be greater incentive to produce.

2. How would such increased production benefit laborers and owners of capital? (436)

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

3. How would such increased production affect aggregate rent? (436-437)

Aggregate rent would increase. Superior lands, formerly unused, would be released for production. All such additional production would increase aggregate rent, as well as wages and interest. (Refer to the "pie" and show larger shares for all with a larger pie.)

4. How would this increase of aggregate rent benefit the community? (436)

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

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

a) The selling price of land is based on the present and future income the owner may expect. If all, or nearly all, the rental value were taken in taxation, the owner would have little left to sell, and the selling price would fall.
b) Land speculation would not be profitable.

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

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

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

No. Land would be much easier to obtain than today. Selling price would be little or nothing, and the only requirement would be that the owner pay his rent tax.

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

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

9. How would increased wages affect labor's productive power? (444-445)	Labor would have the incentive to become more productive. Poorly paid labor is inefficient. Well paid labor uses brain as well as physical power. (Example: The incentive system used in the Lincoln Electric Co. See Incentive Management by James F. Lincoln.)
Effect Upon Individuals, Classes and Society	
10. How would further advances in material progress (inventions, increase of population, etc.) affect all classes? (442-445)	As labor and capital became more productive with material progress, there would be further increases in wages and interest. As rent increased, all would share in the benefits of the increased rent fund. Landowners themselves would benefit by living in a healthier society.
11. Acre for acre, how do the values of agricultural land compare with town and city land? (450)	Agricultural land values are small as compared to the values of town and city land of equal area.
12. If only land values were taxed, how would farmers be affected? (447-450)	Taxes on agricultural land would be small in comparison with taxes on city land. Farmers would be freed of the burden of taxes on their buildings, crops, equipment and livestock. Marginal farmers could acquire better land much more easily than today.
13. How would the home owner fare? (447-450)	His benefits would be similar to those of the farmer.
14. From what types of land would the largest revenues be derived? (450)	From city, oil, and mineral lands, which are generally the most productive lands.
15. With speculation in land removed, what would be the effect on the distribution of population? (451)	People in sparsely settled areas could move closer to centers of population; people crowded in cities could spread out more. Population could then be more evenly diffused.
16. What does Henry George mean by "equal distribution of wealth"? (452-453)	Not that each would get the same amount, but that each would get an amount equal to what he produced.

17. How would a single tax on land values affect the complexity of government? (454-455)	It would vastly simplify government. It would eliminate our complicated tax agencies and cut down on tax litigation and legislation. (Note: George here speaks of "the State as sole owner of land." This expression does not mean land nationalization. Existing titles and possession of land would remain unchanged. The State would only be "owner" in the sense that it receives rent in the name of the people as a whole.)
18. How would such a system of taxation affect the repressive power of government? (456)	It would lift the repressions the government now imposes on the production and exchange of wealth through taxes and controls.
19. What would be the functions of government (local, state, and federal)? (454-456)	The collection of land value taxes and their use for the common benefit; the preservation of law and order; the administration of justice. (Note: When George speaks of the "dream of socialism," he is merely presupposing a certain natural harmony that might develop-"the dream of socialism"-given the full conditions of freedom.)
20. What does Henry George regard as one of the strongest motives of human action? (458-463)	The desire for approbation. The sympathetic nature of man which leads him to act for the sake of other human beings, or for a noble cause.
21. If poverty were abolished, would men tend to idleness? (466)	Desire would remain, urging men forward to new accomplishments.
22. What is the greatest waste of society today? (469)	The waste of mental power, caused by conditions that permit so few to develop.
23. How would an environment which offered greater opportunity to all tend to change society? (470-471)	The capacities of individuals would have greater opportunities for development. The moral, intellectual and social life of society would tend toward constant improvement.

SUPPLEMENT LESSON IX

LAND VALUE TAXATION AROUND THE WORLD

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

DENMARK

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

1. Rental of government-acquired land to farmers at 4% of its selling value. This was begun in 1919. About 12,000 small farmers rent their land in this way.
2. Local and national taxation of land values, with consequent reduction of taxes on improvements.
3. A national tax on increases in land values.

Results are impressive. Danish farm tenancy dropped from 42.5% in 1850 to less than 5% in 1939. Denmark has the lowest tariffs of any European country, and enjoys the highest standard of living of any European country involved in World War II. Denmark was the first country to restore itself to normalcy after the war (in spite of five years of Nazi exploitation).

Denmark is looking forward to collecting the full economic rent, with consequent reduction of other taxes. A majority in Parliament is in favor of this plan, and a Justice (Single Tax) Party, with a representation in Parliament, is vigorously promoting the idea.

AUSTRALIA

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

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

Queensland - Most of the land in Queensland is owned by the state, and leased. It is subject to local land value taxes. There is also a state land value tax on privately owned land. Improvements are not even valued for tax purposes. Altogether, about 54.5% of the ground rent is collected - the highest for any state in Australia. All local communities tax land values only.

New South Wales - Like Queensland, all the local taxing units in this state tax land values only, exempting improvements. However, the percentage of the ground rent collected is perhaps not as great. There is no state land value tax except in certain unincorporated areas, but the state collects royalties on minerals produced.

The City of Sydney became, in 1916, the largest city in the world to derive all its municipal revenue from land value taxation. (Its population is over one million.) It has resulted in elimination of real estate booms and slums, has kept the price of land reasonable, and has encouraged the replacement of old buildings by new ones. Slum areas have largely been taken over for factories.

Western Australia - Of the 147 local taxing units (municipalities and road districts) 32 tax land values only. The remainder tax both land and improvements, but in the 128 road districts, 84% of the revenue is from land values only. There is also a state land value tax, which is heavier on absentee owners. The combined amount of ground rent taken in taxation, however, is not as great as in Queensland or New South Wales.

Other Australian States - South Australia has a state land value tax, with an additional penalty on absentee landholders. In addition, 8 incorporated cities, 11 countries, and 8 district councils have adopted land value taxation. The law provides that a poll may be held to rescind land value taxation. There have been 25 successful polls conducted; four were held to repeal land value taxation, with none of these successful.

Victoria has a state and local land value taxes. 24 out of 198 local taxing units tax land values only. The result has been to bring idle land into use.

Tasmania has a state land value tax, but as yet no local ones (although local government bodies have the option to initiate this, if they choose).

Summary Regarding Australia - Comparing Queensland, New South Wales, and Western Australia (as states taxing land values more heavily) on the one hand, with South Australia, Victoria, and Tasmania (as states having lower taxes on land values and also largely taxing improvements) on the other, the following findings have been made: The first group (the land values group) had increases in land under crops, while the second had decreases in the period considered. Comparing the value of improvements with land, it was found to be 151% in the first group, as against only 79% in the second, and was much higher (198%) in Queensland, which collects the greatest amount of economic rent. Factory wages were higher in the first group and larger in purchasing power. And lastly, it was found that population was flowing from the second group to the first group, indicating that people in Australia found conditions better in the first group. The inflow for Queensland, the state taxing land values the most, was the greatest.

NEW ZEALAND

New Zealand, like Australia, has both local and state (in this case national) government taxes on land values. Local taxing units adopt it by local elections. In 1953, 15 such "polls" were held. Since 1944, 35 local taxing units have adopted the system, and only two have repealed it. By far the majority of local units tax land values only.

Hon. Walter Nash, Minister of New Zealand to the U.S. during World War II, said: "It (land value taxation)...has contributed in some degree to the breaking up of larger estates, while...it has not in any way handicapped the small farmer...it has assisted...in extending the productivity of the country by acting as an incentive to landowners to improve their lands and by fostering the development of more efficient methods of land valuation...the tax has certainly taken, for the benefit of the community as a whole, some of...'unearned increment' of value which the community itself has created."

AFRICA

Union of South Africa - 20 of the 60 cities in the Transvaal tax land values only. In the other 40, the tax on land values is higher than on improvements. H. Earle Russell, American Consul-General, reports: "City Authorities believe the land tax is fairer than taxing both land and improvements. There is no tax on machinery or merchandise...it undoubtedly has helped to replace old buildings with new ones...."

15 of the 65 municipalities in the Orange Free State tax land values exclusively for every city need except water and sanitary services. 23 of the 35 municipalities in Natal tax land values at a higher rate than improvements.

The Rhodesias - Salisbury (Southern Rhodesia) taxes land at a much higher rate than improvements, as does Livingstone, the capital of Northern Rhodesia. Several other towns have taken similar action.

Kenya Colony - Nairobi has taxed only land values since 1921, and Mombasa followed suit in 1949. The Taxation Inquiry Committee appointed in 1947 by the Kenya government reported in part: "...the Committee favors the site-value system in the taxation pattern of the Colony and the principle of levying a comparatively high rate on land, thus insuring that it will not be left idle or insufficiently developed for long, rather than the taxation of improvements."

CANADA

Various cities in western Canada tax land values at a higher rate than improvements. In British Columbia, 54 of the 104 municipalities exempt improvements 50%; 13 exempt them more than 50%.

W.M. Mott, former Mayor of New Westminster (the 3rd largest port in Canada), said: "86% of our householders own their own property, which we believe is the highest percentage in Canada. Land speculation has entirely disappeared...The manufacturers and business men are in an enviable position, since they can and do make improvements to their plants without the fear of increased taxation..." New Westminster has the largest invested capital per person of any city in Canada; it has no local port duties.

Alberta requires its 7 "cities" to exempt improvements 40% from taxation. The province taxes land values to a certain extent, including a land-transfer tax called the "unearned increment tax." The province obtains such considerable revenue from oil leases, rentals and royalties (a form of land rent), that it declared a per capita dividend in 1957.

In Saskatchewan all but one of the cities and towns exempt improvement values 40%; Regina grants a 70% exemption. In the rural municipalties land value taxation is the principal source of revenue. In Manitoba cities and towns exempt improvements 33 1/3 per cent.

JAMAICA, B.W.I.

The following is taken from a booklet, Land Valuation - What it Means to You by W.M. Seivright, Minister of Agriculture and Lands, Jamaica:

"In November 1956, the Government passed the Land Valuation Law to provide for a new system for the valuation of land...

"Under the old system the improved value of land was taxed. Under the new law land will be valued as raw land. Its value will depend on its situation and what it is capable of producing...But anything else on the land - houses, trees, crops, soil conservation works, anything whatever that has been done by man for the purpose of improving land and increasing its value - will not be valued as land. That is man's labor, and he will not be taxed on his labor.

"The simple purpose of the law is to encourage development of the land. Because if land is properly taxed as land, a man cannot afford to keep his land idle, which so many people do today."

THE UNITED STATES

The general property tax and the real property tax in so far as it falls on land values, takes for local or state purposes part of the ground rent of the U.S. In some of our principal cities, it is estimated that 25% or more of the rent is thus taken in taxation. This may in some cases be as much or more ground rent (percentage-wise) than is collected in other parts of the world, where improvements are partially or wholly exempted. And it is apparent to students of economic principles, although evidence is hard to compile to prove it, that to the extent that land values are taxed, to that extent land speculation is discouraged, and the best use of land is encouraged. Of course, to the extent that improvements and personal property are taxed under the general property tax, or the real estate tax, it permits a lower tax rate on land, discourages the erection of homes and buildings, contributes to land speculation and the high price of land.

In many cities, the cost of streets, water mains, sewers, curbs, lights and other improvements is charged directly to the adjoining property, including vacant lots, through special assessments. This is a partial application of the principle of land value taxation. Government collection of royalties on mineral lands, oil fields, etc. are also an approach to land value taxation, as is government leasing of public lands, fishing and water rights, etc.

Some cities and other local taxing units in the United States practice partial or complete exemption of improvements, collecting more ground rent in taxation as a result. Details follow:

Pennsylvania - Pittsburgh and Scranton, defined by law as "cities of the second class," apply what is termed the "Graded Tax Plan," whereby improvements are taxed at just one-half the rate applicable to land. This was begun (on a graduated scale) in 1913. David L. Lawrence, Mayor of Pittsburgh for many years (since 1946), said: "There is no doubt in my mind that the Graded Tax Law has been a good thing for Pittsburgh. It has discouraged the holding of vacant land for speculation, and provides an incentive for building improvements. In the distribution of the tax burden, it is beneficial to the home owners." Roy Stauffer, Chairman of the New Industries Committee of the Scranton Chamber of Commerce, said: "We have found that our method of taxation...is a factor in attracting new industries."

In 1951 the Pennsylvania Legislature passed an act (by an overwhelming majority), permitting the so-called "third class cities" (all the remaining cities in the state with the exception of Philadelphia) to tax land and improvements at different rates. It is possible for them to go farther than Pittsburgh and Scranton have done in taxing land values and exempting improvements. A study undertaken in 1958 by a research group at Lehigh University showed the benefits that would result from the adoption of land value taxation in Bethlehem.

California - In 1909 the California Legislature required new irrigation districts (and gave the option to established ones) to tax land values only, exempting improvements, crops, etc. Today over 100 districts, serving 4,000,000 acres of the best farm land in the state, raising about 75% in value of its crops, follow this system. However, residents of these districts still pay other taxes to counties, cities, etc., where they reside, as well as all state and federal taxes. Also the tax rates have been lowered considerably of late years, due partly to revenue from sale of power, etc., so that not nearly as much of the ground rent is collected as formerly. However, as far as the irrigation district tax is concerned, it is 100% on land values.

R.V. Meikle, Chief Engineer of the Turlock Irrigation District (which includes the cities of Modesto and Turlock) recently said: "The successful development of irrigation districts as compared with the failure of private irrigation companies in the past, has been due largely to the district law which allows districts to tax all land within their boundaries on the basis of valuation...It is practically impossible to profit by the (mere) ownership of land in an irrigation district unless that land is prepared for irrigation and cropped."

Fairhope, Alabama, was founded in 1895, on the shores of Mobile Bay, by the Fairhope Single Tax Corporation, which purchased and leases to residents much of the land comprising the present city of Fairhope. The corporation collects the full economic rent, and with about half of it pays all real and personal property taxes levied by state, county, and city. The remainder is used for public improvements. Since its founding, Fairhope has considerably out-distanced her neighboring towns (which were already established and flourishing before the founding of Fairhope) in development, population, and popularity.

The Three Ardens, in Delaware, operate similarly. The first to be founded was Arden, in 1900. Adjoining Ardentown was founded in 1922, while Ardencroft was born in 1950. The policy is much the same as in Fairhope. In Arden and Ardentown the land is held by trustees, while in Ardencroft it is held by a non-profit corporation set up for this purpose. The land is leased to users, and there are long waiting lists for it. With the proceeds of the rent, as in Fairhope, all local taxes are paid, and the balance of the rent is used for public improvements.

(For further information, see the book Land Value Taxation Around the World published by the Robert Schalkenbach Foundation.)

LESSON X

THE LAW OF HUMAN PROGRESS

Reading Assignment: Book X. and Conclusion

Suggestions to Teacher

This Lesson is more on social philosophy than on economics. In many ways it is the heart of the course, presenting as it does "the grandest problems with which the human mind can grapple."

There are fewer questions in this Lesson than in most lessons in order to allow time for discussion on philosophical points and also for the extras in connection with ending the course.

Most students who complete this course find it a deeply impressive experience, and many feel that "something should be done about it." This is the time to explain to students that the most important thing to do is to promote a more widespread understanding of these ideas, and this is the task the Henry George School has undertaken.

Students are invited to continue particpating in the work of the School in these ways:

1. By continuing their study. (Advise them of the second course in Applied Economics which may be taken in class or by correspondence.)
2. By helping to bring more students to the School.
3. By contributing help for the many chores in connection with running the School.
4. By contributing funds. The School is supported by voluntary donations.
5. By talking, writing letters to editors and in general taking every opportunity to call attention to fundamental economic principles and to the Henry George School.
6. By keeping in tourch, particularly by subscribing to the School's paper, The Henry George News.

Notes

QUESTIONS

The Law of Progress

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

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

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

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

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

The desire to gratify physical, mental and social wants.

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

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

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

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

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

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

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

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

Causes of Decline

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

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

9. As society becomes complex what conditions arise which may lead to inequalities? (516-517)	a) The concentration of political power in one person or small groups. b) Specialization of functions which create privileged classes, such as the military, the judges, politicans, etcetera. c) Increasing values of land which lead to greater power and wealth for those who have monopolized it.
10. Are such inequalities a necessary result of social growth? (514)	No. They can be prevented by making proper social adjustments as new conditions arise.
11. How does the inequitable distribution of wealth and power tend to check progress? (518-519)	The "have-nots" are compelled to expend their mental power in merely maintaining existence, while the "haves" expend mental power in keeping up and intensifying the system of inequality.
12. Does the Law of Human Progress (Association in Equality) account for the rise and fall of civilizations? (508)	Yes. This general law will explain all diversities, all advances, all halts and retrogressions. Progress goes on as society tends toward closer association and greater equality. Progress is halted by inequality and disassociation.
13. Does political equality alone assure the equitable distribution of wealth and power? (530)	No. It does not prevent the tendency to inequality in the ownership of land, which leads to unequal distribution of wealth and power.
The Central Truth	
14. In what ways does Henry George's proposal have the qualities of a true reform? (545)	It will make other desirable reforms easier. It is politically, socially, and morally sound. It is consistent with true equality and justice. It will produce a condition of true economic freedom.
15. What is the meaning of Liberty? (546-547)	"Liberty means justice, and justice is the natural law." Liberty is the true source of progress. Refer to Herbert Spencer's definition: The right of each individual to do as he pleases, provided he infringe not the equal right of all others. Read, or have students read, the passage, pages 546-552, known as "The Ode to Liberty." Call student's attention to the Conclusion, "The Problem of Individual Life" and note that Henry

George considered the individual so important that he dealt with this as the highest and final problem of his book. Passages from the Conclusion might also be read in class.

Distribute completion certificates and letters to graduates. As a rule, students who complete a minimum of 7 out of the 10 lessons are eligible as graduates.

SUPPLEMENT LESSON X

1. REVIEW OF MAIN POINTS OF COURSE

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

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

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

As civilization advances and land becomes more valuable, rent increases and is privately appropriated. This lowers the proportionate return of wealth going to labor and capital as wages and interest. The anticipated increase of rent leads to land speculation which holds land out of use and further increases rent at the expense of wages and interest. This is the basic cause of the problem of the maldistribution of wealth.

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

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

Adoption of this proposal (called the "Single Tax") would greatly encourage production; wages and interest would rise; land, freed of the burdens of monopoly and speculation, would be easier to acquire for productive purposes and homes; government would be greatly simplified.

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

2. ANSWERS TO TYPICAL QUESTIONS

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

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

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

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

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

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

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

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

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

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

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

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

A. Even at present, if a landowner does not pay his taxes, his land is confiscated by the government without compensation. Land grants and taxation are clearly matters of the general public policy; they are legislative and not contractual in character. Titles to land values and privileges of exemption from taxation are voidable at the pleasure of the people. The reserved right of the people to terminate grants of land value is as truly a part of every grant of land as if it were written expressly

in the body of the instrument. Since Progress and Poverty was written, there has been a considerable body of public opinion in favor of land value taxation, and the proposal has been put into application in several parts of the world. Notice, therefore, has been served that there is an effort in progress to accomplish community collection of rent by proper methods. As this movement grows, men cannot be allowed to make bets that it will fail and then, when they lose their bets, to call upon the people to compensate them for their loss. (See the chapter on "Compensation" in Henry George's A Perplexed Philosopher.) Note, too, that land titles will remain. A man will still have the land he bought and it will still be just as good to him - even better - for building a house or establishing a business.