

Gaffney's course
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**Distribution and
Material Progress**

13264

Self-quiz #1, Ec. 121, W87
Covers Introductory, and Book II

For effective study: make yourself answer the question first, as though you were taking an exam. Write down your answer -- a very few words will do -- so you can't cheat yourself later, and so you'll do some creative thinking. Then check with the page cited to see how you're doing. This way you'll really get something from the reading.

Abbreviations: G means Henry George; and numbers after questions are page numbers in Progress and Poverty.

1. Why does G infer there is a common cause for unemployment in various countries? 6
2. Why does G associate said common cause with material progress? 6-7
3. To what does G attribute the sustained support for Malthus' theory? 99
4. How does Ricardo's rent law support Malthus? 97
5. How do Darwin's theories support and extend Malthus? 100-02
6. How did Alfred Russel Wallace diverge from Darwin? (v. handout on Wallace)
7. How do human and animal populations differ in their response to increased subsistence? 134-35
8. Under what conditions do human populations increase fastest? 103
9. What are Malthus' "positive" and "prudential" checks on population? What 3rd check does G identify? 138
10. To what does G attribute poverty in India? 112 ff.
11. Why did Ireland export food during its famines? 125
12. How and why do prey populations respond differently to growth of human and animal predator populations? 130

13. What limits the population of food-importing cities? 132; 142

14. How does G use the law of conservation of matter and energy?
133

What about the "Second Law of Thermodynamics", the law of entropy?

15. What does G mean by "Disproof of the Malthusian Theory".
143-47; 149-50; Cf. 230-43.

16. What is G's attitude toward capital? 147-49

Self-quiz #3, Ec. 121, W87
Covers Chaps. III-V, Book I

1. What is G's purpose and main point in Chap. III?
2. Is it valid, or is G missing a point? Does "advancing subsistence" imply a net decline of capital, as G assumes?
3. In what way does the point of Chap. III depend on G's insistence that consumer capital is not "really" capital?
4. If consumer capital does not yield an increase of some kind, why do people borrow and pay interest in order to get it?
5. Can current saving serve as well as existing stocks to support workers as they produce "hardware" for future consumption? 74 Do you agree with G on this?
6. What is G's point in stressing that workers must eat whether they work or not? He has them supported:
 - a, from consumer capital. 73
 - b, from welfare. 79
7. What is G's overall purpose in Books I and II? 88
8. What does it mean that "mankind really live from hand to mouth"? 75-76 Is G right? G himself lived that way, following Matthew VI:24 ("Take therefore no thought for the morrow"), and came out pretty well at that, raising a stable and successful family too: his wife adored him, one son was a Congressman, and one granddaughter, Agnes de Mille, is now the grande dame of American choreography. But could the country get along from hand to mouth?
9. Following fires, wars, floods, earthquakes, hurricanes, tsunamis, etc., capital is rapidly replaced. 83
 - a. Is that always true, as G implies?
 - b. How is it done?
 - c. What does it prove, when true?

Self-quiz #2, Ec. 121, W87
Covers Chaps. I & II of Book I

1. What is the central question G addresses? 17 This book is considered a masterwork of exposition because of the way it defines and sticks to one issue. Would that students did as well in essays, themes and dissertations.
2. What is the "Wages-fund Theory" (WFT) answer, as seen by G? 17
3. What facts does G cite to refute WFT?
 - a. Interregional comparisons, or "cross-sectional analysis" as we say today. 19-20
 - b. Intertemporal comparisons. 21-22
4. Does the complexity and advanced technology of modern economies free them from dependence on land or nature? 26-28
5. How does the meaning of "wages" in political economy differ from common usage? ~~22~~ 32
6. How does G define "capital"? 37; 47-48
How does G dispose of the classical distinction of circulating vs. fixed capital? 34 What is that distinction? Is it valid?
7. How does G define land? 38
8. How does G define wealth? 39-41
How would you distinguish social wealth from claims or drafts on wealth?
How does G distinguish land from wealth? 42; cf. handout, "Land as a Distinctive Factor of Production"
9. Does increased land value represent an increase in the common wealth?
 - a. No, 40
 - b. Yes, 234-35Can you resolve this apparent contradiction?
10. Does G include consumer capital with capital? Why, or why not? 45

Self-quiz #4, Ec 121G, W87
Covers Book III

Chap. 1: The Inquiry Narrowed to the Laws of Distribution

1. What is "distribution"? Is it part of modern micro, macro, or something else?
2. G now claims that each worker adds to the true wages-fund, 153. Has he shown that in Book I?
3. The problem is not production, but distribution. 154. This became a commonplace among socialists after a while. Did G coin the phrase? Bartlett's doesn't say who did, but he may have, as he did several others.

Does this statement summarize G's position?

4. What does G mean, the replacement of capital need not be taken into account because it "is eliminated by considering capital as continuous."? 155
5. 156ff. a. How does G distinguish profits from interest?
b. How does G criticize earlier writers on this? 159
6. Why does it matter how we define interest? 158
7. What does G mean, "The laws of the distribution of wealth are obviously laws of proportion,..." 160
8. What is the law of rent? 161
9. How does G dismiss the question of risk? 162
10. What factor of production is the prime mover which "drives" the macro system? 162-63

Answers to Self-quiz #4

1. Distribution is the division of economic values among parties. G here deals mainly with "functional" distribution of output, that is the division of the product among functional factors of production, viz. land, labor and capital. Today this process is also called "imputation".

Classical economists wrote of the "distribution of wealth", a usage now archaic which can be confusing because wealth is a fund. But they meant the flow of new wealth, not wealth as a fund.

Classical political economy dealt mainly with distribution. Modern micro and macro neglect distribution. Functional distribution is now found in the part of micro called production economics.

As to macro, early Keynesian macro emphasized functional distribution only as it affected consumption: wages were thought to be more devoted than property incomes are to consumption. No attention at all was paid to the division between rent and interest, a glaring weakness in macro that continues to the present. Modern macro rather resembles, in its intellectual structure and reactionary social purpose, the travesty of the wages/fund doctrine which G attacked. Indeed, modern macro goes farther back than that, it contains heavy doses of the mercantilist fallacies that Adam Smith refuted.

G's travesty was based on mediocre and hypocritical misrepresentations of the true doctrine, misrepresentations which were being used to beat down the demands of workers. G fell into the trap of identifying the degraded forms with the true doctrine and assailing the name of the true doctrine, instead of assailing the hypocrisy and degradation. This is the same mistake made by those who attack laissez faire because hypocritical monopolists invoke the slogan; those who attack American ideals because of hypocrites who drape themselves in the flag; those who attack religion because of hypocrites on church boards; who attack education because of empire-building administrators; and so on.

2. In Book I G merely claimed that workers did not deplete the WF. On 153 he goes much further and alleges they add to it, something he has not shown at all.

What is really bugging G is the notion that the WF is fixed,

and it limits wages and employment. He doesn't tell us who says this, probably because it is some mediocrity. Actually Smith, Quesnay, Ricardo and Mill do not say that, their wages-funds are quite elastic.

Knut Wicksell, a smart Swede, made this explicit in his various works. He called it the "wages-flow" (not fund) doctrine, and showed how a given fund can supply a greater flow of job-creating investment simply by turning over faster. Wicksell has been treated as a stepping-stone to Keynes, but in this writer's opinion Keynes regressed from Wicksell.

3. G wanted to divide the pie differently, but that was partly in order to make the pie larger -- he was concerned with production, not just distribution.

4. This is one of G's most vulnerable points. If capital is considered as "continuous" then it is much like land, whose existence is also continuous.

J.B. Clark, who devoted much of his career to sapping the foundations of G's analysis, seized on this device to advance a theory of capital whose existence is continuous, and which therefore could not be distinguished from land.

Thus both G and Clark shut themselves and their followers out from understanding that capital has a replacement or turnover rate which is a highly important parameter driving the macro-economy. Between them they managed to kill macro-economics from 1900-35, and to blind people to the truth in the WFT (which was the macro-economics of the 19th century).

5. Profits are the sum of three parts: interest proper (which is "pure" interest, something like the risk-free prime rate); risk premium; and wages of superintendence. G does not mention that profits as generally used are net of interest paid out, and the rate of return on equity (RR) is profit divided by equity capital (total assets less debt).

G stresses that "wages of superintendence" are a large part of profits. That is true for small unincorporated businesses, and the writers he is citing are from the era before corporations were as

dominant a form as now. But today in corporations, wages of superintendence are deducted as salaries and bonuses (and some illicit boodling) of managers, before figuring profits.

He only mentions in passing that profits include rent, a curious de-emphasis to be coming from him. Actually corporate profits today include large rents, and can be steady or rising even when the marginal rate of return on capital is falling.

G criticizes other writers for regressing from their own definitions, and using profit to mean the return to capital. They contract the meaning of "wages" to its narrow colloquial sense, and put wages of superintendence in with profits. Their purpose is to avoid any clear distinction between returns to labor and those to capital.

Just why they have that purpose is not clearly stated. It would be more characteristically Georgist to accuse them of concealing the returns to land as returns to labor or capital. George himself stresses the virtual identity of labor and capital, and might be accused himself of blurring their distinction.

The answer probably lies in understanding the times when he wrote, and his stage of evolution. He was addressing angry unemployed or underpaid workingmen who were angry at a vaguely defined "capital", and at orthodox authorities on economics who might rationalize a system that was wronging them. He has to assure them of their dignity and primacy over capital, and then gradually to wean them from blind hostility to all property and distinguish capital from land. He has to establish his skepticism of the authorities on economic theory so that later he can use their theories without being suspected of being one of them.

6. We are in the job of "assigning causes which fix the general rate of interest". Profit is an amalgam of various elements, including rent, which varies inversely with interest according to G. Changes in profits, as the term is generally used, therefore do not tell us what is happening to the RR on capital proper.

If land were convertible into capital and vice versa their returns would rise and fall together; but generally they are not mutually convertible. G does not bring that out here directly, but rather stresses that Labor and Capital are interchangeable, a point he overstates badly. If they were fully interchangeable there would be no point in treating capital as a separate factor.

7. The shares must add up to 100%, so the whole system must be explained together, not just one part at a time. G was system-minded, and was pushing for a unified theory whose parts all harmonized. In this he was slightly ahead of his times, and provoked or stimulated J.B. Clark and Philip Wicksteed to produce their comprehensive marginal productivity theories showing how the total product is "exhausted" when all get their marginal products.

8. It's all there on p. 161.

9. G says risk in the aggregate all cancels out, 162. He evidently sees risk as a zero-sum thing, one investor's gain being another's loss, as though we were all just gambling with each other. Actually there are many losses that are no one's gain. Fortunately, this topic is only incidental here and does not disturb G's major thesis.

10. G says it is labor; earlier writers said it is capital. Later writers have generally stuck with capital, because the capitalist has more discretion over when and where he will invest. It is not clear why G makes such a point of this, since he virtually equates labor and capital anyway. (Cf. §5 for a reason). He wants to stress that labor needs access to land, but he points out that capital does, too, and land scarcity forces down both wages and interest.

1. Yes, there is what we now call "implicit" rent. Implicit rent is also called "imputed" rent because its quantity has to be imputed. A large share of business profit is imputed rent today.

Logically G should extend this to the imputed rent of owner-occupied residences. He never addresses this, probably because it would force him to reconsider his position that consumer capital is not capital. Economists today routinely speak of imputed rent on owner-occupied residences (although they also routinely underestimated its amount).

The importance of this question may be seen by noting that credit secured by residential property is considerably more than the national debt today.

2. Ground rent is capitalized into land value. $V=a/i$, where V is value, a is annual ground rent, and i is the interest rate. When rents are expected to change over time, more complex formulae are required. See handout on this subject.

3. Rent is from the excess productiveness over marginal or rent-free land.

4. 168 has it; also 161.

5. No, it refers only to "the same application" of labor and capital. It does not account for additional rent rising from additional application of labor and capital to better land.

6. "...to inferior lands, or to inferior points on the same lands ..." 169. This phraseology, repeated elsewhere, clearly refers to an intensive as well as an extensive margin.

7. Wages and interest tend to a common level through the interflow and competition of mobile factors. Rent differs from place to place.

8. Ricardo treated rent as a product of diminishing returns, which he associated with farming. Manufactures he supposed to evince increasing returns, hence to yield no rent (if you can't see why, review your basic production economics and figure it out). Marx followed that idea, too. G pioneered the application of diminishing returns to cities (and one cannot explain urban rent without it).

Self-quiz #5, Ec. 121G, W87
Covers Book III, Chap. II, "Rent and the Law of Rent"

1. Is there rent when the landholder and the user are the same?
165-66.
2. How is ground rent related to the price of land? 166
Which is cause and which is effect?
3. How is rent related to the "productiveness" of land? 166
4. What is the law of rent? 168
5. Is G's statement of the rent law adequate? 168
6. George has been accused of understanding only the extensive margin, not the intensive one. Is this supportable? 169
7. As to uniformity, how does rent differ from wages and interest?
170
8. Is rent purely agricultural, or does urban land also yield rent? 170
9. How does G coordinate the laws of distribution? 171

As G's movement evolved it became primarily, perhaps too much focused on taxing city land, whose values were skyrocketing with rapid industrialization, commercialization, and urbanization.

9. Wages and interest get what is left after rent is taken out. The sum of the shares is 100%, so each law implies the others.

G always makes rent the first claimant, with others getting the leavings, or the "residual", as it is put. Other classical economists had given labor/capital their marginal products, with rent getting the residual. G's approach makes the landholder less passive and reactive, more importunate and demanding.

G's approach has a lot to be said for it in terms of realism. Landholders are paid first when: a, they are paid up front by selling title to the user; b, they charge a cash rent; c, appraisers and tax assessors separate land from building values by using the "building-residual" approach.

Self-quiz #6, Ec. 121G, W87

Covers Chap. III of Book III, "Interest and the cause of Interest"

I know, I said don't read this chapter, I just didn't want you to get bogged down in the quicksand. But it has a few good points to bring out.

1. What is G's procedure, calculated to produce a unified theory?
2. How does G's use of "interest" differ from that used in today's published national income accounts? 173
3. What happens to interest rates as society progresses? 174
4. What is the relationship between interest rates and the "productiveness" (evidently meaning average product) of capital? 174
5. Is capital rewarded because of inventions and technology? 179
6. To what does G attribute interest? 180 ff.
7. What besides biological growth is a productive use of capital? 185

1. We will seek each law separately: the laws of wages, interest, and rent. Then we will see if they correlate, meaning they add up to 100%.

We are witnessing here the conception, if not the birth of the unified marginal productivity theory of distribution. J. B. Clark and Philip Wicksteed picked up from here. This is what Marx never did get. Marx stayed with the WFT, which in turn is something G never got. Actually the two can be reconciled, but it calls for some understanding of finance, something neither party ever got.

Lacking a unified distribution theory such as G is roughing out here, Marx had no rational way of explaining the decline of interest rates. Here he, Marx, was calling interest the robbery of labor, and lamenting the exploitation of labor, and interest was falling to very low rates in England. So Marx found an irrational explanation, which others call "underconsumptionism".

To keep his system from falling apart, Marx turned to demand-side economics and found the problem to result from inadequate aggregate demand, which in turn explained falling interest rates. Much of this apparatus was incorporated into Keynes, later. It doesn't hang together because underconsumption is supposed to result from maldistribution which results from the robbery of labor inherent in high interest rates. So if interest rates fall, the problem will have corrected itself. Much of the digressiveness of Marx and Marxists is to avoid facing this point.

2. G's interest includes all returns for the use of capital and not merely those that pass from borrower to lender. (Today we say it includes implicit as well as explicit interest.) Thus it includes the return on equity capital, which the NIPA includes with profits.

G's interest would presumably exclude the imputed income of consumer capital, although he never directly addresses the question of owner-occupied homes. This imputed income is included in NIPA accounts, although not called "interest", and with no effort to distinguish interest from rent, and (as I recall) no effort to distinguish interest from capital recovery. G would be stronger had he handled this point better, but he does have a satisfactory way of bringing it in, which we will see presently.

G's interest excludes "compensation for risk". NIPA accounts do not attempt this. It is also an interesting question how NIPA avoids double-counting with financial intermediaries which both collect and pay interest, but we needn't pursue that here.

Does this leave us mired in complexity and unknowns? No, because G is not trying to measure interest, but figure out what determines interest rates. Today we say there is a "structure" of rates that rises and falls together, subject to common forces, and we take the "prime rate", virtually risk-free, as the index to the whole structure. G is saying, let's see what determines this prime rate. Thus he, like modern economists, is not denying risk, but abstracting from it, to focus on other matters.

3. They decline, by G. G is here reflecting the general teaching of 19th century classical economics, reinforced by direct observation which he interpreted partly in the framework of the classical model. Mill and Marx both saw civilized countries as creating more capital than could be absorbed at positive interest rates -- a view Keynes revived in the 1930s.

G observed what is now called the "continental tilt" of interest rates, with higher rates in growth areas like California, which import capital from stable or declining areas in the east.

The existence of a prime rate at 20% in 1981, 102 years after G's prediction, and 120 years after Mill's, makes one wonder, though, if zero-interest is our ultimate destination after all. Capital shortage seems to be the lot of most economies, most of the time.

G is on stronger ground when he scolds Mill for assuming always an opposition of wage rates and interest rates. Too bad he didn't quote Mill more, but he could have for Mill is guilty.

4. Inverse, by G. This is hard to measure directly, but he has in mind that rents are very high in London, and high rents imply a high average product of capital. But i.r. is low there.

5. G clearly says no, here and elsewhere. Inventions are one thing; saving is another, and there is no reason why the productivity of the tool should inure to the saver.

He also observes that i.r. do not rise with the "march of invention", but are very low in the cradle of invention, England.

6. To the generative powers of nature, or life, which work while man sleeps. This notion G shares with the French Economistes or Physiocrats, of the 18th century. He also shares with them the proposal for a single tax on land, and a policy of laissez faire. Yet he seems never to have read their works, and he is not their disciple for they also originated the WFT which he rejects so vehemently.

G correctly associates interest with time, and says time is productive in nature because life grows. But capital is interchangeable and exchangeable, so if it yields an increase in living forms, then no one will invest it in other forms without demanding an increase there, too. He leaves unexplained why people invest at all in these other forms which yield no increase, and from what they pay the interest, so this has to be written off as a blunder. Fortunately it is peripheral, and not fatal to his central arguments.

Its main value is to show the principle of arbitrage, which G invokes again and again. But here he is falling into the Libertarian-Chicago fallacy that the market will work it all out and you will be able to explain how if you just have faith and keep plugging along. Sometimes, yes; but this time he plugged into a dead end.

7. Perhaps having second thoughts, G here allows that capital also yields an increase when used in exchange. Recalling that he has defined capital as wealth in the course of exchange, this covers everything, but explains little, especially when he now says on p.186 that "adapting" is also productive, without reference to exchange (and on p.73-74 he treats Robinson Crusoe's canoe as capital, with no possibility of exchange).

Self-quiz #7, Ec. 121G, W87

Covers Book III, Chap. IV

"Of Spurious Capital and of profits often mistaken for interest"

1. What does "spurious" mean?
2. Are land values capital? 189
3. Do government bonds represent capital?
4. How do corporations pay dividends on stock issued in excess of capital received? ("watered" stock is the common term.) 191

1. Phony.
2. No. See handout, on land as a distinctive factor.
3. a. Not if the money was wasted. For some reason, when we think of government, waste comes to mind.

G's example of waste is military spending. This is closely paraphrased from Mill, whom G studied closely and for whom he held a love-hate fascination. Mill hedged by saying sometimes military spending is justified. G was not one to hedge, and omitted that part. However in their personal and public lives Mill was the pacifist. George could be more than pugnacious in what he considered a just cause, such as rebelling against tyrannical landlords.

G might better, in his cause, have noted that military spending is mainly to acquire and retain land, so the land is what the bonds represent. This of course justifies taxing the land to pay off the bonds. On p.384 G gets around to noting this, citing Andrew Bisset. Actually his biographers tell us that reading Bisset's book The Strength of Nations, which describes the military finances of Wm. the Conqueror and his successors, is what crystallized G's thinking on land taxation.

In the present passage, however, G is on another track, and he assumes that the taxes in question will come from wages and interest, not rent. In 1886, however, in another book, (Protection or Free Trade?) G revised this position and said that all taxes ultimately come out of rent, no matter what their original impact. This is another doctrine that he shares with Francois Quesnay, the leading Physiocrat.

b. But public works are a "productive" use of capital. Bonds issued to build them represent that capital.

He gives this point only half a paragraph; the second half changes to an attack on stock watering by "incorporations". This was the age of robber barons, and the journalist could not ignore a topical theme, although he should have remembered to start a new paragraph.

But in 1887, two years before G published, Assemblyman Wright

of Modesto carried legislation to let farmers form Irrigation Districts which could issue bonds to finance irrigation works, and tax land in the districts to pay off the bonds. Many people consider these California districts to be the premier practical demonstration of G's land tax, although only at a local level. They are, interestingly, a rural phenomenon, although G's main influence was in cities.

The bonds are not liens on the capital in the works, but on the lands the works serve.

4. By acquiring and exploiting a monopoly, so that profits are much greater than a return on the real capital used. On these monopoly profits "certificates" are issued, and "interest and dividends paid". (I.e. the promoters who created the monopoly turn it into immediate cash by selling part of the company to new shareholders; and borrowing on it by selling bonds.)

Curiously, for G, he never associates the railroad monopolies with their vast land grants, and their rights-of-way. Instead he attributes these simply to the power of massed capital.

It is not that he was unaware. He had fought vigorously against Leland Stanford, the SP, and their corrupting influence in politics, and in an earlier book had attacked their land grants. One suspects that he was holding in reserve his big guns about land monopoly, to maintain the attention of readers who had been trained to think in more conventional terms. This was a period when he allied with socialists.

Note the big dig at Western Union, 193. G's newspaper had suffered losses when WU, the big news monopoly of the time, had treated them shabbily, and G had launched an expensive, unsuccessful attack on WU.

1. a. By saving, which G describes as applying more labor to produce capital.

b. By converting wealth into capital. See also p.200.

Here he retreats from the earlier position that consumer capital is sharply different from capital in exchange. They are mutually convertible. Mill said the same thing. You can live on your household capital while producing exchangeable capital, so what's the need of distinguishing them?

Ricardo and Mill wrote of a conversion of capital between circulating and fixed forms, with only the former constituting the wages fund. Ricardo is explicit that this black/white distinction is only an expository convenience, and the two forms shade into each other and are mutually convertible. Thus Ricardo's wages-fund was augmentable by converting fixed capital back into circulating form. In G, the same elasticity in the wages-fund is accomplished by converting consumer capital into exchangeable capital. So the two are not so different in substance, they just use different figures of speech to get at the same phenomenon.

Still, G focuses attention here on a point neglected by others. In World War II (the big one) we drew down accumulated consumer capital like prewar cars, houses and furniture to pour capital into war plants. There is a reservoir of consumer capital which can be converted to other uses in time of need. This has the same effect as an elastic supply of capital.

2. Interest is determined where "the reward of capital and the reward of labor will be equal." This is nearly meaningless. It is the Libertarian-Chicago fallacy again: when in doubt, invoke the market and punt.

It would make sense had he said "The reward for producing future goods equals that for producing present goods." But he didn't, and maybe that's not what he meant.

So G's interest theory breaks down, and no one pays much heed to it.

3. Capital is stored-up labor, says G, following classical ideas again. Trouble is, capital is also stored-up interest (generally called "capitalized interest" today). Capital is also stored up

Self-quiz #8, Ec. 121G, W87
Covers Ch. V, Book III, "The Law of Interest"

1. How can capital be increased? 195
2. What maintains parity between interest and wages, by G? 198
3. What is the relation of capital to labor? 198
4. How can capital get more without labor's getting less? 199
5. Why does G say that interest falls if wages fall? 199
6. Are capitalists a separate class from laborers? 200
7. What determines the i.r.? 201
8. What happens to the yield of investments in excess of the common interest rate? 201

rent, as when land is used to start an orchard. G, like Marx, inherited the clumsy labor theory of value from classical political economy. Worse, they degraded it, for Ricardo was not at all guilty of a naive labor theory. Wicksell, that smart Swede, brought it along much farther, but his important contributions have not been absorbed by the profession, even though his name is honored.

This is not to say that G regressed from Ricardo overall, because in some ways he improves on him. But this is not one of them.

To call capital stored-up labor is misleading because capital is formed by saving from income, whatever the source of income. It is doubly misleading because less of labor income is saved than of property income. Retained corporate profits are a major source of saving today.

But G goes on, capital and labor are nearly the same thing, "Use of capital in production is, therefore, but a mode of labor." This not only is wrong, it leaves us wondering why G needed Book I, which makes such a point that labor never depends on capital. If capital were just another manifestation of labor, after all, what difference would it make?

4. By adding more to output. Neither takes from the other: "each gets only what he adds to the common fund." Note the word adds. This is marginal analysis being born.

G does not say it here, but the idea is that in the presence of more and better land, the marginal product of both labor and capital is raised, so each adds more to the common fund.

5. Because "else it becomes more profitable to turn labor into capital". But what is it that makes it more profitable? It is the rise of returns to capital. If that rise causes more saving or capital import, and more efficient use of existing capital, that merely tends to moderate the rise, not overcome or reverse it. G seems here to commit the fallacy of making equilibrating reactions greater than perturbations.

Curiously, G misses the point that lower wages will raise rent, and thus land captures some, and perhaps all of what labor loses. Mill did see this point, in a clumsy indirect way we need not

replicate here, but neither he nor G put it all together very well: that was left to Wicksell.

6. By G, the classes "shade off into each other by imperceptible gradations." There is the western American speaking, and reacting against the English assumptions of Mill, which irritated him, and help account for his attack on the WFT of Mill, whom he generally greatly admired. Mill sympathized with the plight of the "working classes", and sought to elevate them, but it never occurred to him they were other than a separate class which he viewed with unconscious condescension. There is a double entendre to "classical" economics. G is offended by the class society model, in contrast to Marx who revels in it.

G rejects the assumption of rigid class structure also because it restricts economic mobility. He is in danger of carrying mobility so far as to have labor and capital melt into each other. Here he backs off a bit from that and recognizes that workers who labor before getting paid are essentially converting their "wealth" -- i.e. consumer capital -- into exchangeable capital.

This makes more sense than Book I. If capital were just another mode of labor, as he says elsewhere, it would not be a 3rd factor of production at all. The point of having three factors is this: all production requires some of each; and they are not convertible into each other, so the returns of each factor are determined by common forces, but separately from returns to the other factors.

7. The i.r.s is determined, like wages, by the productivity of capital on marginal land. Few modern economists would disagree. It is standard investment analysis to rank investments in diminishing order of rates of return, and accept only those that equal or surpass the "hurdle rate".

This would have been a good point, however, for G to have noted that at the margin, where there is no land rent, higher wages must mean lower rates of return to capital. But G, like those he criticized, had trouble dividing the world into more than two parts. So, rather than make capital a true 3rd factor, he shifts it from being merged with land to being merged with labor.

Modern economists, for all their elaborate models and apparent intimacy with mathematics, have the same problem. They divide the world into two factors, labor and capital. Beneath the facade

Self-quiz #9, Ec. 121G, W87

Covers Chap. VI, Book III, "Wages and the Law of Wages"

1. What causes the variation in wages between different employments? 206-08
2. Where do wages equal the average product of labor? 206
3. What would G say about Say's Law? 208
4. On what wages do all other wages depend? 212
5. How are wages affected by locking up superior land? 212-13
6. What determines wages? 213
7. Of what law is the law of wages a corollary? 216

of advanced methodology there is an incorrigible simple-mindedness.

8. Excess yields are caused by use of superior land, and are captured by the differentially high rents of that land. Interest rates tend to a common level; rents remain highly differentiated from site to site.

1. G says A. Smith covered it well. Maybe so, but he left out a lot that is considered important today. Labor markets are more sharply divided than the classicals may have allowed. Admission to the class who receive wages of management is restricted by social class and the class content of education -- you might learn just as much law at Citrus Belt night school as at Stanford Law School, the most expensive one in the U.S.A., but the contacts and references aren't the same at all. Financing expensive education is called "creating human capital". Here, at least, modern economists follow G's preference for fusing capital with labor.

In this modern "certification society" some occupations are closed off by licensure. Within licensed groups cliquishness and old-boy networks and politicking guarantee that ability is not always rewarded. It is rumored in usually well-informed circles that ethnic bias is sometimes a factor, although the strength and direction of bias vary with wonderful complexity and occasional irony.

So labor markets are not perfect, and only a fool and an ideologue would claim so. Quite a few Chicago economists do. But neither are labor markets totally blocked -- after all, Lee Iacocca made it, and this nation has a long tradition of melting in immigrants. But there is a permanent economic factor that virtually guarantees the permanence of a dual labor market.

Wages of superintendence are generally higher for those who have more assets to superintend. There being no substitute for an owner's care and concern, the law of diminishing returns tells us that unequal distribution of wealth leads to unequal wages of superintendence at the margin. Ross Perot's decisions over his billions are much more consequential than yours or mine over our mites, yet we all have all the time there is, no more and no less.

So G may be overstating things a bit to assume so much mobility among all forms of labor, but he would probably allow as much. The exceptions really do little damage to his case, and even strengthen it.

2. On marginal land (and, implicitly, using little or no capital). We still teach this in production economics today.

3. The passage on 208 supports it, but elsewhere we find hints of underconsumptionism in G. It is not a point he thought much about, but on the whole he is the ultimate supply-side economist. No

economist ever devised a program more thoroughly geared to increasing production. Oddly, those who call themselves supply-side economists today have failed to take up the cause of incentive taxation. They are not the only hypocrites in the world, but mostly they use supply-side as an excuse to get preferential tax favors for all property, implicitly assuming that all property is capital, blurring the distinction of land and capital.

4. By G, all wages depend on wages in the lowest stratum. It would be more defensible to say that the whole structure tends to rise and fall together, subject to common influences, and that is substantially what G means. Here, as in his interest theory, he has a weakness for taking one part of the whole as the determinant, and letting it govern all the rest.

5. Wages are forced down, along with the margin of production. Here, G foreshadows his major thesis, much as a composer prepares the ear by dropping fragments of his major themes and melodies in his introductions.

6. See p. 213

7. Of the law of rent. It is obvious, but earlier writers have not seen it, although "if it were a dog it would bite them". Winston Churchill, in his youth a crusader for Georgist policies in Britain, developed this as follows: quoth he, "Many a man stumbles over the truth only to pick himself up and hurry along as though nothing had happened."

Chap. VII, "The Correlation and Coordination of these Laws", recaps all that, and needs no separate quiz.

Self-quiz #10, Ec. 121G, W87

Covers Chap. VIII, Book III, "The Statics of the Problem Thus Explained"

1. What keeps wages and interest from rising as their average products rise? 222

1. The landholders' share rises and soaks up most of the gains, by G.

On 223, just as on 171, he has rent taken out first, wages and interest get the leavings. Cf. quiz #5, \$9.

Self-quiz #11, Ec. 121G, W87

Covers Book IV, EFFECT OF MATERIAL PROGRESS ON DISTRIB. OF WEALTH

Ch. I, "The Dynamics of the Problem Yet to Seek"

1. What question will G address here? 227
2. How does Ricardo explain it? 227
3. How will G approach the question? 229.

Ch. II, "The Effect of Increase of Population upon the Distribution of Wealth"

4. How does G differ from Mill? 231-32
5. How does added population affect the productivity of labor? 232
6. How does added population affect the productivity of land?
234-35
7. Is G rejecting the law of diminishing returns? 232-33
8. Some of G's critics have accused him of overgeneralizing from a purely agricultural theory, Ricardo's law of rent. Is that fair?
168, 235-43, 246, 257.
9. G has been accused of forecasting a fall of wage rates, a fall that has not occurred. Is that his forecast? 233-34; 241; 253; 255.
10. Why might G be called the founder of urban economics? 235-43.
11. Was G right about the "coal and iron beds of Wyo. and Montana"? 243
12. Who originated the concept of Earth as a Spaceship?
Buckminster Fuller? Kenneth Boulding? 243

Chap. III, "The Effect of Improvements in the Arts, ..."

13. What does G mean by "the arts"? Botticelli, Rembrandt, Beethoven? 229; 244.
14. What is the effect of improvements in the arts? 244-45
15. What, rather than increased population, really forces down wage rates? 246
16. How is the demand for land affected by higher incomes? 247-49
17. What is "the final goal toward which the whole civilized world is hastening"? 253
18. What ever happened to the "great machine-worked wheat-fields of California"? 253
19. What is an "unproductive laborer"? 252

1. What makes rent rise with progress?
2. By increasing population. Mill says the same.
3. First suppose population to increase, with "the arts" constant; next suppose the arts to progress with population constant. The method is patterned exactly after Mill's Principles, the expository model followed by G -- but with different findings.
4. Mill says added population always pushes down marginal returns, while progress in the arts may raise them. G says the reverse. He rather understates here the degree of difference, which by reading further, and comparing Mill, we find is extreme.

Concerning the arts, G had much to learn from Mill; concerning population Mill had much to learn from G. Chap. 2 is one of G's most important and persuasive contributions.

It is not that Mill had never heard such arguments before. He simply rejects them -- but more out of personal preference than observation. He is an English gentleman who cherishes a high degree of privacy and isolation, and he projects his preferences onto the whole society, which he often tells us he doesn't like very much. Well and good, but an economist has to submerge his personal preferences when analyzing the whole society.

5. Increases it, by G. There is a "more than proportionate increase" in production.
6. Increases it, but the increase is localized on particular sites. These turn out mainly to be urban sites, by G, but one suspects the effect is more diffused.

By associating this increase with city land, G comes close to seeming to espouse the fallacy promoted by others, that diminishing returns is found in farming but not in cities. In a later work, however, The Science of Political Economy, he clarifies his position and rejects that fallacy.

7. G does not make it explicit that diminishing returns on particular sites can and do coexist with increasing returns to the whole nation or city. It is clear that there cannot be increasing returns on each parcel, else one parcel would absorb the labor of the whole world. Mill and others naturally went from that to seeing diminishing returns in the aggregate.

How could that be wrong? It is a fallacy of composition. It overlooks the synergy among the different parcels. But I can't blame G for not addressing this point explicitly because my students in urban economics have found it extremely hard to grasp. Perhaps you do, too -- but try!

8. It is a fair shot at Ricardo, but G was the first to see that diminishing returns applies to urban land use as much as to rural.

9. G says that population increase will raise rents most, but perhaps also raise wage rates. This part of his forecast was essentially borne out over a century.

As to the effects of the arts, however, in the next chapter, he takes some wild swings as we will see.

10. The "story of the savannah", as these pages are called, is about the earliest description of the powerful synergy of urban linkages. G and his followers focused the attention of a generation on the high value of urban land, although you still run into idiots who call him an "agrarian reformer". He was more of an "urban populist".

11. Not the iron beds, which may have been a myth. But the coal beds came on strong after 70 years, if not 50.

12. You be the judge.

13. Methods of production and exchange; also knowledge, government, police, manners and morals, which he says have the same effects.

14. To save labor, and use more land, by G.

This is one-sided, and not defensible. There are also land-saving arts. Anything which increases yields per acre (aka the average product of land) is land-saving. G gives one such example, p.241, "thousands of workers to the acre, working tier on tier,..." For some reason he attributes that entirely to increased population. But credit is due also to the arts of architecture, construction, planning, and engineering which crafted the elevators, pumps, central heating, plumbing and sanitation, etc.

G. unconsciously gives another example, p.243, in writing of spaceship earth and its hatches. The arts of mining let mineral energy substitute for animal energy, thus releasing all the

pastureland once used for draft horses. If that was 1/3 the land used in farming (which is roughly correct, I believe), that allowed a 50% increase in land growing food for humans. In addition, tractors can get into wet fields earlier in the spring than horses could; they can pull plows through claypans too tough for horses to handle; and otherwise increase yields per acre.

Ironically the policies of G himself, applied to finance irrigation in California, are responsible for much of the increased yields that occur when dryland farming gives way to irrigated farming. The high yields of California farms have made fruits and vegetables so cheap in the east as to have taken much eastern land out of horticulture. California cotton has released much eastern land for other uses. All this production comes from what was all desert and swamp before irrigation and drainage changed it.

As an exercise, think of some more land saving arts. Remember that G includes government, police, manners and morals among the arts.

G's mentor J.S. Mill thought of a few, too. Mill's Principles has a chapter on "Influence of the Progress of Industry and Population on Rents, Profits and Wages", in §4 of which Mill stresses that progress may be land-saving, not just land-using. G doesn't even refer to this, much less refute it. And yet it seems that he was directly confronting Mill, who said that population lowers wages, while progress in the arts is all that may offset this, and may even raise wages.

Mill's treatment is, to be sure, a little foolish because he runs all his effects through the cost of food, and its presumed effect on wage rates (if food costs less they will accept lower wages). Still, G can hardly be excused for going off the deep end on this matter and ignoring Mill's argument.

The simple fact is that when labor is dear, capital goes into saving labor; when land is dear, capital goes into saving land, and developing new lands. Thus the system is more self-equilibrating than G feared in this apocalyptic chapter, which has to be discounted as journalistic hyperbole.

It is ironic that G, who expresses repeatedly his faith in the market's equilibrating powers, should overlook this kind of equilibration and issue a doom forecast. But it was an age of doom forecasts and gloomy thinking, even though some look back on it

now as the golden age of innocent optimism!

15. The progress of invention, by G. Here G directly contradicts Mill, who said land-saving invention is all that staves off the Malthusian doom that punishes those who procreate excessively. (Each man was consistent in his personal life. Mill was no prude but he was prudent, having no children of his own; G had four. The happy ending is that Mill's step-daughter, Helen Taylor, supported G fervently when G toured England, and declared that Mill, if still living, would support G too.)

16. Higher incomes increase the demand for land. Here G is on firmer ground, and even understates the point. There is a missing link in his argument, he is not explicit that demand for land increases more than demand for labor. But that is what he evidently meant, and he was sensationally right.

Land as a consumer good is what is now called a "superior" one, that is one to which people devote a higher share of their spending as they grow richer. It is reliably estimated, for example, that only 15% of the increased resource use from 1946 to date is due to increased population; the rest is due to increased resource use per capita.

For one example, driving and parking cars is incredibly resource-using, when you add it all up: the oil, fueling the military to secure the oil, the parking space, the interchanges, the freeways, the wider streets, the concrete and blacktop, the rubber, the steel, the paints, the air pollution, and on and on. And why do we have cars? So we can commute out to houses with larger yards, and ski farther from home, and bomb around in the desert, and keep vacation homes and country estates.

And the richer we get, the larger the estates. Walter Annenberg has his own private golf course in Palm Springs, using enough water for a small town, pumped in from the Colorado River -- and for lesser wealthy folk there are 50 other golf courses soaking up water in this desert. More generally, the share of land in residential real estate value rises with wealth, reaching a peak in places like Beverly Hills and Avalon.

In G's time the English nobles kept vast country estates in that "overcrowded" country, and in Scotland and Ireland. To get a little more shooting and fishing room they evicted whole villages,

who could go press on the means of subsistence somewhere else.

There is a vicious circular element in this increased demand for land. It increases the wealth of those who already have land, and thus increases their effective demand to have more. But those who got a late start, or have fallen in the race, or devoted their lives and savings to serving others, they get caught on the wrong side of the wedge that is being driven through society. And so today we have a growing army of the homeless who cannot afford even to rent a pad for the night. We have hunger in a country with farm surpluses and a program to slaughter one million cows to support milk prices. We have sickness without care. We have teen-age prostitutes exposed to disease and abuse. We have a shortage of prisons. We have armies of people living in underground economies, and another army of policemen chasing them around. We have a nation whose world-rank in every measure of health, education and achievement is slipping dangerously, and whose sense of mutual aid and solidarity is giving way to "every man for himself and the devil take the hindmost".

So G had reason to be apocalyptic, even if he didn't explain the reasons quite right. And we have plenty to worry us today along the same lines he sketched out.

17. "the absolute perfection of labor-saving inventions", making labor redundant and dispensable. As noted in §14, this is hyperbole.

We will see that G finally has 3 reasons why labor gets driven off the land: labor-saving invention; increased demand for land and land-intensive products; and land speculation. Here he puts far too much weight on the first. It is the other two that are more potent.

18. They were incorporated into irrigation districts, taxed the way Henry George recommended, and subdivided into small, intensive irrigated farms supporting a large population directly and indirectly. Cf. §14, above.

19. This is an atavistic throwback to a concept G has previously rejected (p.32), but which Mill kept using and so crept back into G. "Unproductive" here evidently means performing personal services for rich landholders, and is intended as a slam more at the customers and the servile relationship and mindset than at the type of service per se.

1. By causing landholders to withhold land from use, creating an artificial scarcity, just as combinations do.

2. Two reasons: a, less rapid growth in England; b, English farmers are habituated to being tenants. Landholders waiting for the rise can lease land out during the wait.

Critics of G have wondered why U.S. speculators cannot gain by leasing land rather than withholding it. To a degree they can and do. The answer seems to be that renting is a poor substitute for the security that comes with owning. Also, the prospect of rapid change in best use causes even owner-operators to avoid improving land in its present use, as we see in growth areas all the time.

G evidently sensed a weakness in this argument, which is why he overstated the first one (about technological displacement of labor). Later thinkers have made it his major argument, however. There is a lot to it, but it needs more refinement.

3. Scattered them widely over the continent and interfered with economical clustering. This has been heavily documented and is a truism of American economic history.

4. Scattered it. G was the first economist to identify and criticize what today we call urban sprawl, a manifestation of market failure that has today worsened 500 times beyond what G observed.

5. Scattered it. It is part of G's genius that when he spots a principle he sees it at work throughout the economic system. He did not write that "theory transcends technology" but he used the principle to extend laws learned by observation in one setting to help analyze others. Thus he saw continental sprawl; urban sprawl; timber sprawl; and, on p.258, mining sprawl.

Today timber sprawl is worse, thanks in part to market failure but moreso to political and bureaucratic failure. The U.S. Forest Service, administering our national forests, cuts too slowly on the good sites, neglects restocking when it does cut, and overspends badly on extending expensive roads to lands of thin

Self-quiz #12, Ec. 121G, W87

Covers Book IV, Ch. IV, "Effect of Expectation Raised ..."

1. How does the expectation of rising rents produce the effects of a combination among landholders? 255-56
2. Why is this factor more powerful in the U.S.A. than in England? 256
3. How has land speculation affected settlement patterns in the U.S.A.? 256-57
4. How has land speculation affected the settlement of growing cities? 257
5. How has speculation affected timber harvesting? 257-58
6. Is land speculation episodic or chronic? 259
7. How does land speculation differ from commodity speculation? 260
8. What limits the "speculative advance of rent"? 260

timber that probably should never be cut but reserved for scenery, recreation and watershed protection.

6. Both. There is a base level that is bad enough, but it rises to peaks of "mania". Words like "mania" are routinely used by historians and contemporaries observing peaks of land prices, so G is in good company with this observation.

But since we now have in the saddle a generation of economists who never studied history they are spinning fantastic theories about markets dominated by "rational expectations". History laughs at such pretensions. Economic man is a mob animal, and mobs are manic-depressive.

7. Commodities are reproducible; land isn't. Commodity prices are limited by cost of production, both up and down; land prices start from zero and can rise without limit.

As noted earlier, capital can be land-saving, and land-saving investments temper possible land price increases more than G allowed. Latter day Georgists have failed, alas, to modify his doctrines accordingly.

8. On p.260 G suddenly blurs over the distinction between rent and sales price which he drew on p.256. What he seems to mean here is the advance in rent caused by locking up good land caused by speculative overpricing by land with holders.

However, from here on he treats rent and value as moving in lockstep. Too bad, because they don't. For future reference call this the V/R ratio, meaning Value/Rent. It corresponds exactly to the P/E ratio of Wall Street.

Anyway the limit on rent is that the other factors must be paid enough for workers to survive and capital to be formed and replaced. This leads to his fascinating explanation for boom and bust. Remember that Smith, Ricardo and Mill barely touched on this topic of overarching importance.

By G, there is no room for any rise of rents where workers are already squeezed to the bone. But in new countries with higher wages, rents can rise by cutting into real wages and returns to

investment of real capital. Periodically rents rise too much, bringing "recurring seasons of industrial paralysis", and to new countries "seemingly long before their time, the social diseases of older countries; (producing 'tramps' on virgin acres, and (breeding) paupers on half-tilled soil." 259

G is leading into his theory of business cycles, a pioneering effort. There was no real study up to this time. There were complaints of "oversupply" (such as may be expected from any self-serving combination of producers), and general refutations from Say and Mill and others that oversupply was meaningful. But G is the first to have faced the matter head-on and made it a major part of his work.

Mill's contribution to the subject is limited to one page in his Principles, Book IV, Ch. IV, §5, where it is incidental to explaining the falling rate of profit.

1. "...by so much as he owns land and equipment which he works with hired help."

V's absentee ownership is in effect very close to G's "land speculation", but more precisely defined, as well as more inclusively.

Note the carefully chosen words "by so much as". Veblen's followers, the "Institutionalists", have often been quantum theorists who bucked at marginalist thinking and continuous functions, and have even been whimsically defined as aspiring economists who couldn't pass calculus. Veblen appears relaxed and too wordy (which he is) but he deals in differences of degree where that is appropriate.

2. Yes, his style is one of mock pomposity spiced with acrid irony, cynicism and sarcasm. He deliberately irritates us to capture our attention. When George waxes florid he is being sincere and means to be taken straight -- he was an orator of the old school, patriotic and religious, very much part of his culture. Veblen is an immigrant, an outsider, a misfit, a philanderer, and a complete social critic with little apparent concern about what policies his analyses might imply.

Why bother with him? He was original and insightful to a remarkable degree, and a prodigious scholar.

3. V's term for rent, i.e. income that is "free" of any need to reward a producer or saver.

4. We can only infer that V thinks ^{it} belongs to the whole community, even as G does.

5. To seize as much land as you can get, and gain as an absentee owner.

6. Farmers take up extra land and hold it for its prospective free income.

7. It is an "habitation". By inference, people hold extra land out of habit, without even analyzing the investment.

8. By V, absentee ownership comes first; it is the bed of

Self-quiz #13, Ec. 121G, W87
Covers Veblen, Absentee Ownership, pp. 129-41

We now insert these pages from Veblen, for reasons that will be apparent.

1. At what point does a user-owner become an absentee owner? 130
2. Is Veblen putting us on?
3. What is "free income"? 133
4. Why is "free income at the cost of the rest of the community"? 135, 131
5. How does V characterize the pioneer spirit? 134
6. How does speculation make for absentee ownership? 135
7. Is speculation a conscious behavior? 135-36
8. Do large landholdings result from economies of large scale operation? 136
9. How has absentee holding affected the need for credit? 136
10. How has absentee holding affected the costs of farming? 136-38
11. What is the natural saturation point of human wants? 139
12. What causes a high rate of insanity among farmers' wives? 138n
13. What would V consider a legitimate reason for wanting more than one's fair share of land? 140
14. a. How is V following G? How revising G?
b. Are the revisions warranted?

Procrustes, and operations are stretched out to fit the landholdings, at considerable economic cost.

This view is "more Georgist than George". George, like Marx, was impressed -- snowed? -- by the claims of economies of scale. His land tax was designed to get the economic results of equal land division without the presumed economic costs. V on the other hand says that land speculation (absentee ownership) is so powerful a force that it forces farmers to adopt large scale "extensive" culture.

Who was right? G's followers now say "let the market decide. Just tax the land and the market will determine the optimal scale." Experience with heavy land taxes in some Irrigation Districts suggests that they lead to subdivision and small units, but a lot depends on circumstances and the particular lands and crops and times.

9. Increased it. And since some can't get it as easily as others, we may infer that this screens out many otherwise viable farmers. G would agree, but note that taxing land reduces the purchase price and thus reduces the need for credit.

10. Increased them, not just by oversizing operations and by increasing credit needs, but also by scattering the settlement of farmers.

11. By V, what can be obtained by and is needed for workmanlike powers and tangible performance. Unlimited greed, he implies, is the result of the existence of free income, and is only possible for those who have or can get free income. Pp. 139-40 contain one of the most soul-searching passages in English literature. It is V's genius to take attitudes we take for granted and make them seem ridiculous.

12. Loneliness, a product of scattered settlement. Veblen as an individual evidently gave generously to assuage such loneliness, but one man can only do so much.

The desperately lonely Norwegian immigrant wife is the theme of Ole Rolvaag's novel Giants in the Earth, which was required reading in high school English in the 1930s. The wife in this novel does indeed lose her mind, and if you visit Dakota in the winter you can understand why. Many Norwegian immigrants solved the problem by joining the Mormons, who lived in villages.

13. To do more than his fair share of work for the community. Brigham Young had a related idea, granting land to early Mormons in proportion to "the length of the clothesline", creating a pro-natalist tradition that still makes Utah the most procreational state in the union. Problems they may have, but loneliness is not high on the list.

The central moral idea in G is that each child born has an equal right to the earth, an equal claim to the economic rent.

V had no children of his own. His idea of working for the community was more literally to work. He was even better noted, however, for consuming and demanding very little, his material desires being unusually limited.

Both V and G were very much in the American tradition of upholding the dignity of labor, and being correspondingly suspicious of property.

14. a. V never acknowledged any debt to G -- or to anyone else. But much of this tracks G pretty closely, and might also have been absorbed from Harry G. Brown, G's disciple and V's colleague at Missouri.

"Free income" is obviously G's rent, and V follows G in seeing large landholders get this at the cost of the rest of us. V shares G's skepticism of the virtues of the land-grabbing frontiersman, and V like G sees the lure of higher future rents as a major motive for land-grabbing.

Both men stressed the high social costs of scattered settlement, although V restricted his observations mainly to farming.

V's absentee ownership is more pervasive than G's speculation. G drew or implied rather a sharp line between speculators and land users, where V makes it a difference of emphasis along a continuum. In the present section nearly everyone is infected and degraded by the passion. There are few heroes in V: only workmen and engineers. Elsewhere V indicates that property is legitimate so long as the owner is using it himself, i.e. is not an "absentee". The same is implied in G, but G never expressed it so neatly. G accepts and even seems to glory in man's "unlimited desires", while V views them as a sickness and perversion.

Both men saw land speculation as endemic to the system. G had a

Self-quiz #14, Ec. 121G, W87
Covers Book V: "The Problem Solved"

Chap. 1: "The Primary Cause of Recurring Paroxysms of Industrial Depression".

1. What is the main cause of depressions? 263
2. a. What does "proximate" mean?
b. What "other proximate" causes are cited? 263
3. How do labor and capital resist advances in land value? 264
4. Why don't capitalists needing land simply join in the speculative game? They could buy land at speculative prices and use it while it continues to rise in value, and they get the gain?
5. What lets production resume after a crash? 265
6. What is induction? 266
7. What two schools of depression-explainers are cited? 266
8. What modern doctrines are descended from these two ancient schools?
9. Has there been much progress in economic thought since 1879?
10. What might block progress in economic analysis? 295; also Veblen, p.53.
11. How does G refute the overproduction theory? 267
12. How does G refute the overconsumption theory? 267
13. How does G use the theories against each other? 267
14. Where do depressions originate, by G? 268
15. What reduces demand in a crash? 269
16. Is G shifting his definition of land? 269; 273
17. What creates wealth, by G? 272
18. What causes economic development? 272
19. Does farm production drop notably in depressions, as implied on 273 and 277?
20. a. How was the bust of 1872 "largely attributed" by common opinion to r.r. building? 274
b. Is this overproduction, overconsumption, or something else?
21. How does G refute the capital waste theory? 274
22. How does G relate r.r. building to the ensuing deadlock?
275-77
23. Why do crashes come suddenly, if the cause is a slowly rising pressure from rising land values? 278-80
24. Who today corresponds to G's English merchant selling trinkets on the West Coast of Africa? 278-79

plan to correct it without changing the culture. V seems to be guided by a model of an idealized Norwegian fishing village with strong traditions of mutual aid and little accumulation of surpluses.

G saw technology as a moving factor; V saw technology more as being driven by the forces that caused absentees to agglomerate landholdings in excess of efficient sizes. This contradicts V's more usual approach which is almost technocratic -- indeed, V has been called the spiritual forefather of Technocracy.

b. V's approach might overcome a political difficulty in G. V is more explicitly for the little guy. G is more inclined to the "level playing field", with a strong possibility that the big guy may win.

V's skepticism of economies of scale contrasts sharply with G's tendency to accept the claims of large-scale efficiency uncritically. And yet it was G who said that "The great cause of inequality in the distribution of wealth is inequality in the ownership of land." The more we look at these two writers the more their differences seem to evaporate into different choice of words.

1. The speculative rise of land values cuts into the earnings of labor and capital.

2. a. Immediate and evident, as opposed to initiatory and basic. In a 3-car crash, say, A hits B, making B hit C off the road. Then B is the proximate cause of C's damage, but A is the initiatory cause.

b. Economic interdependency; currencies that contract when most needed; alternations in commercial credit; tariffs.

3. By ceasing production, it is their only way of resisting. In practise this means what? Declining to buy or rent land at the high asking prices.

There is room for great elaboration on this simple idea. Some will rent or buy less land, and use it more intensively. Some will buy as much land but use funds they otherwise would have used to improve it, thus becoming withholders themselves. Some will organize and pass rent-control laws. Some will sleep on the street, or sell from the sidewalk. G never developed the details of this theme, central as it is to his theory, and the specific mechanics remain fuzzy.

Prior to ceasing production you would think that wages and interest were first forced down to a minimum. History does not show this. In fact, i. r. rise just before major crashes, as G himself notes much earlier on p. 21n.

I believe his theory could be modified to incorporate this fact. Overpricing of land leads to overallocation of capital to land-saving investments, which waste of capital leads to a shortage of disposable or "circulating" capital. But George, alas, could never incorporate this idea without accepting some of the wages-fund theory against which he had preached so vigorously in Book I. The trouble with vigorous preaching is that it locks one into positions he might benefit from abandoning.

4. Many do. In a sense all do, because no one can justify buying and holding land at today's prices without counting the future advance in price or rent as part of his gain. Thus everyone is hooked, forced by the market to participate in the speculative game, once it gets started. All become implicated, emotionally and politically, whether they like the principle or not. As Veblen said, we all become "habituated", by which he clearly meant

"insidiously corrupted".

So now we have to interpret G's theme in terms of how investors react to a set of incentives where expected changes in land value are made part of the overall return on investment -- and land price part of the investment on which return is figured. This has several results:

- a. Many are screened out by the increased need for credit.
- b. Rising land value becomes part of the incentive to build; but it can't go up forever, and then it becomes a serious drag.
- c. Land value becomes collateral; its wild swings destabilize credit and money.
- d. A lot of land is unused, (or run down in its present use), as the holder waits for a possible higher use which never materializes.

5. Rents fall; productivity rises; and wages and interest fall.

6. Reasoning from the particular to the general, as opposed to vice versa. Aka a posteriori, as opposed to a priori; or Baconian, as vs. Aristotelian. Or, loosely, empirical as vs. theoretical.

What G is doing at this point is shifting gears. He has just been deducing "the actual phenomena as resulting from the principle." Now he is reversing the process, or purporting to -- although the only facts set forth here are that depressions are preceded by speculation.

7. Overproduction and overconsumption.

8. Overproduction is much like underconsumption, which is the initial main ingredient of Keynesianism. It harks back to Mercantilism, when unemployment was blamed on lack of money. It is beloved by big-spending politicians and their beneficiaries, as well as by improvident individuals, for it traces all problems to excess of thrift.

Overconsumption is much like undersaving, which is now a main ingredient of supply-side economics. It is beloved by hair-shirt punitive puritans who hate to see us enjoying ourselves, and who revel in scolding us for it when their leadership runs out of ideas. It caters to the same grim streak as Malthusianism does,

because having children goes with low saving. It was this kind of economic thinking that earned for us the title "the dismal science".

9. There are those who doubt it. There is a great advance in specious sophistication of a superficial manipulative sort -- number crunching and all that -- but much less essential philosophical advance. Economics is cursed by its ability to identify unearned income. The same vested interests are still bringing forth the same basic pleas, and they are so well-financed and supported as to crowd out much of what is really new and constructive in the field, especially anything that might threaten them.

10. It would be interesting to relate the passages cited to recent attacks on the Department of Economics at UCR.

11. Most people still want more than they have. Recall also his earlier axiom that human desires are unlimited. 245

12. There is unused capital.

In recent times Paul Samuelson has made the same point against those who said there was a capital shortage. Neither party however has addressed the point made by Ricardo in 1817: there can be too much fixed capital but too little circulating capital. Truly, we are a profession that goes around in circles, slowly!

13. Each is the answer to the other. "Manifestly, the trouble is that production and consumption cannot meet and satisfy each other." So simple, so obvious -- yet here we are still chasing our tails 108 years later!

At this point G might well have added Malthus to the overconsumption side. Overproduction and Malthusian doom scenarios obviously answer and refute each other.

14. By cessation of production in (and therefore demand from) "the newer countries, where the advance in land values has been greatest." (G is referring to the % rise in values, not the \$ rise, which in absolute terms might be higher where values were already higher.) "Newer countries" I would interpret broadly to include new regions within all countries, and newer neighborhoods and suburbs in all cities, etc.

Subsequent events and studies have borne this out strongly. Capital flows from older centers to growth areas during booms, and is called back during busts, creating swings of highest amplitude in the growth areas. Remember from history, "In God we trusted, in Kansas we busted" -- that was from 1890, during a 4-year period when "fully half the people of western Kansas left" to go back east. (Hicks, Populist Revolt, p.32).

The "official" crash happened in 1893, but was preceded by the Kansas and other growth area crashes which, being far removed from the centers of information and opinion formation, made little impact on the "establishment". Likewise in the 1920s there was a farm crash in 1920; a drop in urban building from 1926, and a Florida crash of the same date. But the "official" crash came in 1929. It became real when it hit New York.

What about today?

15. By G, reduced production has to come first. His example is a mill town when the mill shuts down. Then this check to production propagates itself through the whole town.

He doesn't tell us what made the mill shut down in the first place, and that we need to know. A mill represents land already in use, and unable to be withheld in speculation without also holding back the capital on it in the mill. This all needs to be worked out better. G clearly has something important to say, but he skates too fast over the mechanics of the process.

16. Yes. He forgets that urban land is land, and the most valuable land, a point he stressed earlier. On 269 he has industry rest on extractive industries. On 273 land means farmland. This chapter was too hasty to develop its important theme properly.

17. "Man creates nothing. ... The land is the source of all wealth."

This is a little at odds with pp. 198 and 203, where capital is just a form of labor, stored-up labor.

G never worked out this matter thoroughly. Of course, if he had, no one would have finished reading this book, so who is to criticize? He might have worked it out later, but we all have choices to make, and his was to go into politics.

In fact, capital which is close to the mine has a high land

content. An extreme example is coal stored at the mine-mouth; or sulfur stored on the surface after being pumped up from huge underground domes by the Frasch process. As a resource moves through the course of production and exchange, value is progressively added by labor and capital and urban land and so on. But silverware and diamond rings still have value based mainly on the land content, even in the homes of consumers.

The reason it should all be called capital is because it has been produced and not yet consumed. G never hit on that simple formula, which would have clarified matters a lot, and without much prejudicing G's conclusions.

G here seems to be giving too much weight to extractive industries. He seems to be saying that overpricing of farm and mine products is what makes industries shut down and causes depressions. There are many particular cases of mineral monopolies, but little evidence to blame most crashes primarily on scarcities of raw material, as implied.

18. "...the development of the country makes the city grow." This one-sided bit of agricultural fundamentalism seems out of place from the father of urban economics. Adam Smith wrote in 1776 already that the progress of the cities is what stimulated the development of the rural areas. Cities certainly do require a food supply, and processing farm materials is a seminal urban activity, and it is hard to find a large city other than Las Vegas springing up in the desert. On the other hand it is a truism of geography that mines seldom create great cities; certainly the gold mines in the Black Hills never did.

OK, so G overstated or misstated his point here, but still there is a point. The massive development of California farming after G wrote surely contributed a lot to the overall prosperity. It is a question of balance: the cities also contributed to the rural prosperity, and G of all people, urbanist that he was, should have known that. Choking off urban growth will also stifle rural development. Since urban growth depends on improving urban land, G's major thesis is still safe. He just misstates it here.

19. No, farming before 1936 at least was notable for the reverse. But 277 may contain the germ of a correct description: labor is "turned back from occupations more directly concerned with land to glut those in which the value of land is a less perceptible element." Now measuring land by value (not area) a lot of farming occurs on low-valued land, and traditionally it is to such areas

that disemployed labor homes in a depression. G wouldn't have seen much of this in his California, but the eastern states are full of such refuges: the Ozarks, the Appalachians, the Taconics, the North Woods, the river hills, etc. Here, the value of land is a small element in whatever is produced.

20. a. By diverting capital to an unproductive use. Here, G misses a main point of the classical wages-fund explanation. It is not that the use was unproductive, but that it was not immediately productive, and the capital stopped being recovered to recirculate. As Ricardo would say, circulating capital was converted to fixed, reducing the available wages-fund.

b. It is something else: depleting circulating capital.

21. By citing the waste of capital in the Civil War, which did not bring on a depression. Keynesians long made the same argument about World War II.

That is a bit glib. The confederate states remained depressed for 75 years. As for the others, much capital was raised in Europe. And even that was only enough to finance a boom for 6 years, 1866-72. It is possible that the boom was so short, and the following depression so long and deep, because the railroad boom drew on shallow reservoirs of capital, owing to the wartime depletion.

It is also possible that Civil War finances exhausted the capital of small business more than large, and contributed to the swift concentration of economic power that occurred post-bellum. That concentration is well represented by the railroad pattern: too much capital was funneled into the rails, controlled by a wealthy few; too little capital was available to develop the small businesses on the lands opened up by the rails.

Wars do many things besides shooting up capital, so the subject is too big to cover here. What G lacks in this chapter is a cogent a priori reason that capital waste is no problem. Of course he developed that theme at length in Book I, so if one accepts Book I, G is right. Otherwise, shortness of capital -- or, as Ricardo and Mill said, of circulating capital -- can be a problem.

22. G says the r.r. building boomed up asking prices for land out of the market.

One wonders if this isn't too simple. How about land which is

already in use? Won't it simply become more intensively used? How about land-saving inventions and investments -- won't they be stimulated? How about land-linking investments like more railroads? Won't they be -- and weren't they -- stimulated by the high price of land?

The proximate cause of collapse in 1873 was the inability of investment bankers, notably Jay Cooke, to peddle new railroad bonds. It was, that is, a drying up of investment funds. This same Jay Cooke had successfully underwritten large federal bonds in the war. If the r.r. bonds were just a bucket in the tide, as G says, why did this great company collapse from inability to move them?

It seems that G's theory needs to be extended. The land boom he cites is undeniably true, and heavily documented in both earlier and later cycles in the same pattern. The fault is that he sees only one of the effects of high land prices. He does not see that high land prices stimulate land-saving and land-linking (i.e. transportation) investments until these absorb and freeze much of the available capital.

23. The developing areas are supported by credit extended from older areas, until the credit is called in a panicky rush.

Now here we have something, although G unfortunately trivializes it with his example of the English merchant selling gaudy calico and Birmingham idols (Birmingham in those days meant tacky or schlocky). The heavier credit went to finance rails and cattle and such substantial developmental items.

J.S. Mill had advanced a related idea in his chapter on the tendency of profits to a minimum (Mill, Principles, Book IV, Ch. IV, §5). Mill sees profits driven down to a minimum by the formation of more capital than can find profitable use. Then investors, rather than accept safe, low returns, give a "ready ear" to riskier ventures promising higher gains but risking great losses, which in fact occur.

Modifying Mill with G's idea, profits are driven down, not by a glut of capital, but overpricing of land. Then investors give a "ready ear" to riskier ventures -- and more deferred returns, in land-saving, land-linking ventures. When the land bubble collapses these risky ventures in saving land prove to have been ill advised, land now being too cheap to warrant such outlays to have saved it. Thus the capital is lost, and there is little recovery with which to meet the next payrolls.

We will see that Veblen develops a theory somewhat along G's lines, but with "goodwill" substituted for land value as the overpriced siren that leads the sailors on the rocks. Wesley Mitchell, Veblen's disciple who pioneered modern business cycle research, had some such model on his back burner, too, although Mitchell was so doggedly inductive that he finally just got lost in the trees.

So G's theory is poorly worked out, and yet contains an essential element that should be incorporated in a complete theory.

24. America's largest banks financing LDCs and iron curtain countries, extending very risky credit and belatedly pulling back.

1. Rent absorbs the gains of progress.

2. No, he slurs them together when he writes of "a speculative tendency ... (causing) ... a still further advance of rent." He should have said land value, not rent. Because it is land value that rises on speculation of rising rents in the future. Speculation is a condition where the V/R ratio is unusually high. G should have made that clear.

There are exceptions. Thus a merchant goes into a new shopping center with a long term lease. His early rents are often too high, but he pays them to hold his position for the later term when the rent will be a bargain. Thus the lessee shares some of the risk, and some of the gain with the developer. Perhaps that is what G had in mind, but that is reaching to be generous.

3. "...the essential quality of manhood -- the godlike power of modifying and controlling conditions. He becomes a slave, a machine, a commodity -- a thing, in some respects, lower than the animal."

You won't find that kind of writing in the Econometric Journal today. G knew how to hit us where we live, but this is also a personal declaration of his own fierce independence. No one would tread on Henry George, who lived life on his hind legs. It hurt him to see others suffer passively.

4. He compares land values with the estimated value of the population if they were all slaves.

This mode of comparison has been scrupulously avoided in our national income accounts because it dramatically emphasizes the difference between labor income and land income. The value of a slave is based only on his output net of subsistence -- subsistence including sustenance during the unproductive years of childhood and old age and sickness.

This is not original with G. When the classical economists wrote of income they generally meant pure income, and they recognized that common labor didn't have much because most of what workers earned went for subsistence and replacement. Land rent on the other hand was pure income. It is quite possible that many who voted for the 16th Amendment in 1913 thought they were voting just to tax income in that sense -- certainly no one dreamed that wages would become the main thing taxed, an innovation dating only from 1942 when a Mr. Beardsley Ruml introduced the idea of withholding from payrolls.

Self-quiz #15, Ec. 121G, W87
Covers Book V, Ch. II, "The Persistence of Poverty ..."

1. What holds down wages, by G? 282
2. Is G distinguishing rent from land value? 282-83
3. What does the natural man give up in becoming part of an interdependent economy? 285
4. How does G express the value of rent relative to wages? 289
5. Have real wages risen much in 1,000 years? 289
6. What does G mean by "land monopoly", a term he throws around freely? There are many landholders.
7. How does G go from the general to the particular? 295

So when modern tax protesters ask why they can't depreciate themselves as they grow old, or claim that wages are not income in the sense of the 16th Amendment, they are not making it all up. But they are fighting a new conventional opinion that is backed by a powerful vested interest, one that operates by ridiculing threatening ideas as crankish and eccentric, and is armed with means of jailing those who seek to implement those threatening ideas.

Let's repeat G's comparison today. What is the value of 231 million Americans as slaves? Are we worth \$50k each, net, purely as workers? That seems quite generous when we include all ages and conditions, and deduct all costs of birthing, nursing, doctoring, rearing, educating, transporting, etc. It is more than most people leave when they die, even though most of bequests come from property income. At \$50k each we would be worth \$11.5 trillions. The land of the U.S.A. is worth about the same.

The NIPA accounts bury land rent in other headings, and treat the entire gross income of labor as wages, thus giving an impression that rent is a small share of national income. G's method gives a startlingly different perspective. Think about it.

5. Not if we believe Hallam and Rogers, as cited. The Gothic cathedrals also stand as evidence that our medieval ancestors were not as hard up as some would have us believe.

6. Adam Smith and J.S. Mill used the term and G is merely following their lead. They may be excused for not following modern texts, which use the term differently, but which they never had a chance to read. "Monopoly" to them referred to the fact that land could not be reproduced, so those who held the existing supply would have no new production to compete with. "Monopoly" also connoted what today we call tenure, or quiet possession, of resources that had earlier been common and open to all.

7. When he says "...the most diverse phenomena are seen to spring from one great principle." This is deductive reasoning which, if the principle is true, is a great clarifier and thought-saving device. "Theory transcends technology" we say today, so a principle like diminishing returns applies to all technologies just as gravity applies to all materials.

Among Georgists the standard expression for this is "seeing the cat", a reference to the face or figure hidden in the scrollwork (p.295) being that of a cat. Seeing the cat is the flash of

recognition, the epiphany on the road to Damascus, the conversion and understanding never lost once gained. Once you see the cat you see it in everything.

This can make one a great bore, of course, especially if one sees cats where there are none, and overlooks horses and giraffes. But many social facts do indeed "group themselves in an orderly relation" according to G's principle.

Once again, now, what is the principle? That land rent rises to absorb most of the gains of material progress. G's example on 294 is telling. Manhattan Island passed for \$24 in the 17th century.

Self-quiz #16, Ec. 121G, W87
Covers T. Veblen, Intro. and Chaps. I-III

1. Who was President when this book was published? How would you characterize the political and social mood of the times? Compare the times with: 1879; 1913; the present.
2. In the Preface, how does V promote himself at the expense of other economists?
3. Is absentee ownership (AO) inevitable? 4
4. Is AO desirable? 4
5. Does theory lead or lag practise? 5
6. Who is challenging AO? 5,8
7. How are statesmen reacting? 8-9
In whose interest? 7, 8
8. What is V's "red line of cleavage"? 9
Note: In spite of his impishness there is no double entendre in V's use of "cleavage". Its most common current meaning is a product of our modern prurient culture and was unknown to V.
9. Is the problem production or distribution, by V? 9-10

Chapter II: The Growth and Value of National Integrity

1. What is the "competence" of AO? 12-13
2. How does V find support in John Dewey? 16
3. What elements do you find in Ch. 2 that derive from H. George?
4. What two topics are the organizing themes of this and the next chapter? 21-22
5. Are there modern parallels to the attitudes described on pp. 29-30?
6. What is "Mercantilism"? 32
7. What was different about the ante-bellum era in the U.S.A.? 33
8. For whom, by V, is imperialism practised? 35
9. What is V's attitude toward the "loyal citizen"? 36

Chap. I: Answers

1. Warren G. Harding. It was a time of intense reaction against Woodrow Wilson's New Freedom and everything it stood for, including internationalism, social idealism, professionalism, open dealing, equity, tolerance, free competition, small business, middle class virtues, and challenge to the leadership of the titans of finance. Communism in Russia was a new threat to property, one which few conservatives had yet adjusted to facing calmly, especially with Trotsky preaching international revolution.

Young people then were something like today's yuppies, libertine in personal life and heedless of public life, yearning for freedom from small towns and small town preachers, freedom that is from narrow dogmatism, from inhibitions, and from personal and public responsibility. The humiliation of Wm. Jennings Bryan managed to gratify all three freedoms in the symbolic Scopes trial.

All that and Prohibition too! The most permissible radical sentiment of the times was anti-militarism, which coincided with the reactions against internationalism and taxes and public service.

Social criticism was tolerated only so long as it was entertaining, urbane, derisive of rubes and boobs, and lacking any pointed program, lacking any call to take up public responsibility. Veblen's style was suitable. It was the age of Sinclair Lewis, H.L. Mencken, The Smart Set, Scott Fitzgerald, the American Mercury, the Monkey Trial, Hemingway, Dos Passos, Dreiser, O'Neill, and art deco too.

Henry George would not have made it big in 1923. But 1879 was different. People were closer to the ante-bellum age of small towns, small business and small farms, and apprehensive over the rush toward concentration, the loss of old values. They were moralistic and sentimental. And they were deeply pessimistic, emerging from a severe depression following a bloody, divisive war, compared to which W.W.I was a picnic (for the late-arriving Americans, that is). Radical ideas found ready ears.

1913 was different, too. Radicalism had matured into Progressivism, captured Washington, and was prepared to deal from strength with plutocracy. President Wilson combined invulnerable personal rectitude with humanitarian social idealism, and included

several radical reformers in his Cabinet. But the war hysteria changed all that, as wars do (Veblen would say that is what they are for).

Today is different? Which period does it most resemble?

2. He deals with "phenomena which are of later date than the received doctrines." Translation: my modern ideas make others obsolete. From a man who writes disparagingly of salesmanship that is a pretty strong pitch. It must have worked for it has been copied ad nauseam and today we are washed over weekly by another "new economics".

For its times the dig was sly and subtle. V's digs are calculated to pass right over the dull perceptions of irascible punitive people who might give him trouble in that repressive era when manly stupidity was in flower, non-conformity was sedition, and professors with troublesome ideas were bounced.

3. "...eventual abridgment or disallowance" of AO is a possibility. That is about as close as V ever gets to a policy prescription.

4. Its gainfulness is at the cost of the underlying population.

5. "As always, the language employed and the principles acted on lag behind the facts." V is of course referring to language other than his own.

6. "...the underlying population who have no absentee ownership to safeguard." And the Russians.

7. "...desperate recourse to the strong arm of repression"
To save AO. "National rivalry is a necessary means of making things safe and profitable for the absentee owners, ..."

8. "...between those who own more than they personally can use and those who have urgent use for more than they own." Simply to own something does not make you one of the "haves". Owning just what you need to complement your own workmanship (and, by implication, to make your modest home) does not make you an AO. You become an AO when you have more than you can handle personally, which gives you control over others.

V understood marginal economics and the concept of continuous variation. He artfully combines this with the quantum leap over a "red line of cleavage" by defining a balance point beyond which

additional property is absentee owned.

Thus V puts the smallholder on the side of the landless proletarian. That is logical, and compatible with V's philosophy about workmanship and property. But V seems to be overlooking the historical evidence, which explains so much about society, that just a little property, just a little stake in the system, often turns radicals into reactionaries.

9. Production. V's major grievance against AO is the way owners combine to restrict output. This sharply divides V from other radicals who emphasized distribution, and is strikingly inconsistent with V's contempt for material luxuries for himself and others. Consistency is not V's strength; needling is.

But V is in tune with the evolution of economic analysis, which was away from distribution and towards micro-economics, whose goal is finding the best allocation of means among competing ends. V's main concern is monopoly restriction of output.

Chap II: Answers

1. "...means in excess of what the owner can make use of, personally and without help; which is also a convenient definition of absentee ownership." Again, it is the balance between ownership and labor power that V stresses, and imbalance which he obviously deplures, in his sarcastic indirect way which pretends only to describe, not to judge.

AO makes one a "substantial citizen", by letting one "avoid work in some useful occupation."

2. Both believed that rules of conduct should adjust to changing conditions, a viewpoint labeled by its critics as moral relativism, and situational ethics. V's followers call themselves "evolutionary" economists, a bracket that also embraces Marxists. But it excludes most Georgists, who have "seen the cat" of universal principles that endure amid the shifting sands of technology. (Dewey, by the way, was an avowed Georgist, and it may be that critics and even friendly popularizers have distorted his true meaning, which is that ideas are plans to solve problems in a social context. Henry G posed a problem and developed a plan to solve it, a procedure exactly in line with what Dewey prescribed.)

3. 12, AO yields something for nothing
- 13, nations are predators
- 20n, AO claims unearned income
- 22, nations acquire land by fraud and force, and get unearned incomes.
- 29, something for nothing is at the cost of the underlying population
- 33, tariffs are vexatious, and U.S. land policy was thriftless
- 33, people pursue unearned gain by taking over land and holding out

4. Natural Rights (i.e. property), coming in Chap. III.
National Integrity, in the present Chap. II.

You have to dig to find V's organizing themes. They say his lectures were even worse, and he mumbled besides. It was a useful defense mechanism in a repressive era, but no one will ever point to his work as an example of masterful organization, as they do Progress and Poverty.

5. If you haven't noticed you must be dead. And Veblen says it so memorably, "...reticence tempered with prevarication".

6. National policy based on the assumption that international trade is a zero-sum game. An incidental mercantilist belief was that accumulating gold is desirable in itself, and Adam Smith's Wealth of Nations targeted this particular fallacy, with which therefore most people today identify mercantilism.

7. The community at large, rather than just big business, had more voice in government. The Civil War followed by the corrupt Grant administration profoundly restructured political and business power.

8. For AO, to enlarge their dominion beyond the national frontiers.

9. He is a sap who loyally and proudly supports the very AO that is exploiting him.

1. He says he will, but he doesn't.
2. Natural Rights. Also see the Chapter subheading. V is treading so cautiously! The real topic is property rights.
3. "Natural ownership is workmanship wrought out and stabilised in a material object." This same labor theory of ownership is central in Henry G., Thomas Jefferson and like-minded people. V correctly traces it back to John Locke.

Marx and George both adopted a labor theory of value, partly to fortify this Lockean concept and illegitimize property incomes.

4. Here, yes. But cf. 136, where farm technology is driven by the ownership pattern.
5. This is your job.
6. It is our most archaic institution, derived from pastoral civilizations in remote antiquity.
7. "...a prescriptive right to get something for nothing."
8. Natural right of workmanship, and prescriptive right of vested interest. The former is the "good" reason, but the latter the real basis of AO. Sounds like Henry G.

II. "The Natural Right of Investment"

9. From masterless men working on raw materials supplied by others (the putting-out or domestic system). But ownership of natural resources is an alien strain that runs back to seizure by force and collusion; it is "AO without apology or afterthought." Sounds more like Henry G.

10. a. Land in small holdings is "raw material with which he mixes his labor in the work", and therefore is "ownership based on workmanship", by V.

This concept points up a weakness in G, which has plagued efforts to implement his ideas. By G, when ores are severed from their matrix in the ground they become capital, 100%, and also 100% a labor product. But when labor is mixed with soil, and stays in place, it remains partly land. He is clearly right about the second point, but partly wrong on the first.

Chap. III: "Law and Custom in Recent Times"

I. "Handicraft and Natural Right"

1. Does V concentrate on modern times? 40
2. "Ownership" as a topic was how described on p.21?
3. What is the basis of property rights? 48
4. Is V a technological determinist? 41
5. Define these terms: archaic, institution, neolithic, I.W.W., Legion, pastoral, inalienable, prescriptive, feudalistic, usufruct, dead hand, going concern, capitalize, earning-capacity, technology, sabotage.
6. What is V's attitude toward religion? 44
7. What, by V, is a vested interest? 49
8. What two philosophies of ownership does V contrast? 49

II. "The Natural Right of Investment"

9. How did AO originate and evolve? 50
10. a. May landholding be grounded in workmanship?
b. Does it matter?
11. How are habitual ways of thinking formed and enforced? 53
12. Which came first, commerce or industry? 54-55
13. What part of an enterprise represents AO? 58
14. How does V define capitalism? 58-59
15. What allegedly new meaning for capital does V set forth? 59
16. What two factors govern the net product of industry, by V? 62
17. What limits the population, by V? 62
18. What is technology, by V? 62, 65
19. Whence comes technology? 63
20. What are inventions? 66
21. What causes unemployment? 65-66

V is in a sense exploiting that weakness. V is saying OK, if movable capital is 100% capital because mixed with labor, then the soil is also 100% capital because improved by the farmer.

b. But it doesn't matter much. V doesn't carry this point very far, and those who do are into "pettifoggery and subterfuge". Small farms are out of date, and the big AOs have no such defense, they are just hiding behind the small farmer. Even squatters' rights are based on seizure, not workmanship.

(If "squatter" seems like a curious term, notice how dogs mark off their property rights. In German, the proprietor is the "Besitzer". Ownership is "Besitzstand", a calisthenic concept indeed.)

11. By a vested interest "tenacious of its prescriptive rights and full of an habitual conviction of the justice of its cause."

12. Commerce.

13. Finance. Modern students of industrial organization point out that superior ability to raise money is an advantage of larger firms. In their posture of detachment from value judgments, and acceptance of underlying institutions (especially AO), they make this just another "economy of scale". V, on the other hand, has showered it with opprobrium.

But then he shifts and throws in a touch of technological determinism. Cf. p.136, where technology follows ownership.

14. When industrial scale advanced beyond the scope of the owner's personal involvement, and the owner became an absentee, mainly concerned with earnings.

15. Capitalization of earning capacity. It is doubtful if this idea is new with Veblen, as he intimates. His treatment makes no distinction of capital from land, but land has always been valued this way, there being no other; while the value of capital is limited by its cost of reproduction.

16. The arts, and population. Shades of J.S. Mill and Henry G!

17. The arts. He must have in mind the land-saving arts, in contrast to G who thought only of labor-saving arts.

18. The state of the arts, consisting of accumulated knowledge, skill and judgment.

"Tangible assets, considered simply as material objects, are inert, transient and trivial, compared with the abiding efficiency of that living structure of technology that has created them and continues to turn them to account."

Presumably he means depreciable tangible assets, because land is not transient or trivial.

This concept of technology as accumulated wisdom helps explain G's challenging question, why do (some) nations recover so quickly from devastation. They kept their technology and their land and their social organization, all of which are costlier to acquire than material capital which is replaceable.

"Trivial", however, is much too low an appraisal of the stock of material capital. "Inert" is also an unfortunate word which would rule out all living forms of capital.

19. Mostly from the past. This points up an important error in G's view that we live mostly from hand to mouth. The most important part of our productive ability is our heritage of industrial arts.

This heritage of the arts is kept alive only by education and training. It is preserved by recording. Hence the high social importance of schools and libraries and apprenticeships and entryways into skilled trades and professions.

20. Common knowledge turned to new and technologically unexpected uses. If so V could have been quite an inventor, judging by what he does with common ideas.

21. "...a legal right to withhold any part of the necessary industrial apparatus or materials from current use ..." Ownership of equipment and natural resources gives that right, a "legal right of sabotage".

More shades of Henry G. Observe n.13, p.66, land speculation is "sabotage carried to perfection".

Observe, p.68, n.14, V was publishing this kind of sentiment in the august Quarterly Journal of Economics, 1908. It would hardly be acceptable today. Let's see now, which era were we saying was repressive and reactionary?

Self-quiz #17, Ec. 121G, W87
Covers Progress and Poverty, Book VI, "The Remedy"

Chapter 1: "Insufficiency of Remedies Currently Advocated"

1. Into what 6 classes does George array proposed remedies for review? 300

1. Economy in government, education, unions, cooperation, dirigisme, and land distribution.

2. Would labor gain from economy in government, by G? 301. Do you agree?

2. No, by G, but he overstates the point. Good government should raise the productivity of labor at the margins, and raise wages.

3. How would economy in government affect the margin of production?

3. Raise it. G likens economy in government to an advance in the arts, which he thinks he has shown is always labor-saving. But what if government disgorges wasteful landholdings so idle land can be put to use by private people? What if government economy allows a reduction of destructive taxes like the tariffs which G always criticizes? These actions will raise the margin for labor, and investment too.

4. How was "Boss" Tweed's popularity affected by his prison sentence? 302

Can you think of later such cases?

4. He was cheered. The proletarians felt he had not robbed them.

How about Ferdinand and Imelda? There is still the Daley machine in Chicago to be sure, and in parts of Oklahoma, Arkansas and Tennessee an honest man could be in danger. The Mafia is reputed to control garbage pickup in some cities. But in modern California the business of plucking cities has grown more sophisticated, professional, and respectable. It is done now through bond sales, investment bankers, law firms, engineering consultants, redevelopment agencies, Chambers of Commerce, civic boards, and land developers, most of the persons involved being

main line Americans, good Elks, Kiwanians, and patrons and monitors of charities, hospitals, churches and universities.

5. How does G use China to illustrate his point about the effect of education on wage rates? 305, 308

5. Widespread education and educability simply made education common and taken for granted by employers, and did not prevent wages' falling to a subsistence minimum.

Today we might compare Japan, where the life of students is living hell from an early age. Students are trained to cram for weeks on end with 4-5 hours of sleep a night. Exams are used not so much to encourage learning as to test endurance and docility. Suicide rates are high. The suicide rate is a pretty good index to how people evaluate their own lives. Natural savages may suffer high death rates, but not by their own choice.

So far the system "works", in spite of the misery it brings. Who gains? The value of land in Tokyo rises to \$10,000 per square foot, about 10 times the maximum found in major American cities. Not much incentive to hara kiri if you fall into a piece of that action.

6. How does G use Ireland to illustrate his point about the effect of cheap food on wage rates? 306

6. Introducing the potato in Ireland (the "Irish" potato is of American Indian origin) let the Irish live on less land, so they bid up rents. But since potatoes are land-saving it would seem G left something out of the story. Land-saving technology lets rent rise on the lands where it is used, but should release marginal land and thus raise wage rates at the margin -- a "paradox" that G fails to overcome. Put most simply, land-saving technology raises rent per acre, but lowers rent per worker.

What did G leave out of the story here? There must have been clearances and enclosures which offset the otherwise benign influence of the land-saving potato.

7. What would G say about DINKs? 306

7. Where it becomes habitual for wives (and children) to work,

wages are driven down so that subsistence is impossible without whole families working.

In these examples G is drawing on his labor-union doctrines and not always remembering to ask what effect hard work has on wages at the margin.

8. By G, which is cause and which is effect: personal qualities or the material conditions of life? 309 Do you agree?

8. By G, the material conditions of life determine personal qualities. Raise the conditions and character improves.

One is tempted to reject this idealistic view by looking at how much harder immigrants work than native Americans do; how much harder New Yorkers study than Californians do. But before interpreting the evidence this way, read G closer. He says that higher wages act to improve the character of "the laboring classes". Much of the dissipation and idleness we observe among spoiled American kids may be the result of their parents' rent income, and/or the pathetic emulation of the rich by wage-earners without unearned incomes.

How about this. The children of wealthy people must be trained to preserve that wealth, or they will lose it. If the wealth is in land, the income flows effortlessly in and the need for character and training are at a minimum. But if the wealth is in capital it wears out and turns over and must constantly be reinvested and managed. Thus in a society with low rents the possession of wealth would be only the possession of capital, and would require more character and ability, not less. It is the ability to receive unearned income in perpetuity that spoils people, both those who receive it and those who observe it and grow cynical or emulative.

In Kuwait, the high oil rents are divided among all Kuwaitis as a social dividend. The result is that Kuwaitis import Palestinians and other landless people to do the hard work.

The upshot? It's not as simple as G says, but he steers us to issues of real consequence and suggests deep answers, which is more than you can say for most writers. G was not one to dodge the big questions.

9. Who was "Bunyan"? 310

9. John Bunyan, author of Pilgrim's Progress, a widely read moralistic tract in G's time.

10. How, by G, do unions affect wages? 310

10. Unions raise wages in the affected trades, at the expense solely of rent. "The rate of profits" is not reduced. Here, G evidently means the rate of return on investments of capital, which he had originally resolved to call "interest", abjuring the use of the word "profits". He also clearly means returns to new capital; he notes that "fixed capital" (evidently meaning sunk capital) might well be milked by a union.

He denies that unions lower wages in other trades. But on p.312 he seems to contradict this indirectly when he says that the amount of work called for in the unionized trade might diminish. If so, that would clearly tend to raise prices; and also shunt workers into other trades, both tending to reduce real wages in other trades.

11. How does "fixed" capital circulate? 311

11. It is "only somewhat" less mobile than circulating capital, meaning it wears out fast and yields a surplus from which it is replaced. Here, as elsewhere, G makes capital out to be highly plastic and accommodating.

Ricardo had noted that the distinction between fixed and circulating capital is a difference only of degree. All capital circulates; "fixed" capital simply circulates more slowly. But Ricardo, unlike G, also noted that the difference may be very great. Some capital yields back this surplus only very slowly, and the freezing of much capital in fixed forms can seriously deplete a country's fund of circulating capital with which real wages are paid.

The missing link in G's argument is his overlooking this Ricardian point, which he should have used as follows. High land values stimulate land-saving and land-linking investments. Such investments are more "fixed" than labor-saving investments, i.e. they circulate or turn over slower. Thus, high land values make liquid capital freeze and clog the macro-economic pipelines.

12. How would it affect the product mix to double wages in a

17. What lets landholders combine easily? 315

17. The fixed and definite nature of land. Also, speculation produces the effect of combination even without combination.

One could add more. Much land is in large holdings, employing many men, so already you have one employer dealing with many employees. Then there is Veblen's cogent point, that corporations in their very nature are combinations. But the law, dominated by landholders, has habitually exempted corporations from the rule against combinations and conspiracies.

18. Why are unions inherently tyrannical? 315-16

18. Because a strike is an act of warfare, and armies are organized tyrannically.

My experience with unions has tended to confirm G's view. I served as economic consultant to a labor (they spell it "labour") government in B.C. (they call it the "New Democratic Party", or NDP). My job included organizing conferences on issues in economic policy. The unions would never participate, even though I was with a government they elected, and I invited them repeatedly. Businesses were very participative, even though they came mainly to argue against government policies. It seems the unions are organized so tyrannically they could not or would not let any rep participate in a free discussion.

19. How does G's breakdown of "cooperation" into two parts differ from the breakdown in common use today? 316 ff.

19. G has two kinds, cooperation in supply, and in production. Coop. in supply means displacing middlemen. This is what we mean by a "Cooperative" today, and two main kinds are recognized: consumer coops, which are retailers; and producer coops which market for organized suppliers.

G's coop. in production refers to participation in risk, and includes sharecropping, selling on commission, profit-sharing, etc. These arrangements are seldom called "cooperation" today, but participation. They are very common in most trades, and may reach high levels of complexity and sophistication, as in cinema distribution contracts.

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20. What forms of participation are common today?

20. Farm sharecropping; mineral royalties, delay rentals and bonuses; commercial rents which include a cut of sales; commissions; ESOPs; profit-sharing; etc.

21. Name some successful coops in California.

21. Sun-Maid Raisin Growers; Diamond Walnut; Sunkist; Calavo; Gage Canal Co., and other Mutual Water Cos.

22. Are they always geared toward promoting abundance?

22. They are exempt from prosecution under the anti-Trust Acts, thanks to the Capper-Volstead Act of 1922. They often act like any other monopoly dividing and exploiting markets, destroying surpluses, and controlling output.

23. What is the "colonial or metayer system"? 317

23. Metayage is French for share-cropping; a metayer is a share-cropper. The words are used in Europe.

24. What was a "lay" (in 1879)? 317

24. A % of the whaling catch, given in lieu of other wages.

25. Why does G not expect sharecropping to improve the lot of tenants? 318

25. It is just another way of collecting rent. If it is more attractive to the renter than the equivalent cash rent, it will simply raise rents, and force cash rents up too, to compete.

26. How does G regard income taxes? 320

26. Negatively. He foresees "a large number of officials clothed with inquisitorial powers; bribery, perjury, evasion, and demoralization of opinion, a tax upon conscience and a premium upon unscrupulousness, a lessing of incentive to accumulate wealth." Pretty good forecast.

27. Was he right to treat income taxation under the heading of

dirigisme (which he calls "Governmental Direction and Interference")?

27. It's worked out that way, hasn't it? In some textbooks income taxes are called "neutral", that is a way of raising revenue without distorting incentives. But G's insight here was more on the mark.

28. Did the Jesuits really cover themselves with glory in their governance of Paraguay? 320

28. Not if we judge by the modern result, the bloody iron tyranny of Alfredo Stroessner. The Jesuits have also played a strong role in Philippine affairs, with net results such as you see. This is not to question their talent, ability and dedication, but only the results.

29. What role for religion does G see in public affairs? 320

29. G, the only economist who routinely quotes Scripture with sincere intent, notes that the success of socialism would presuppose a strong religious faith, which is "wanting and is daily growing less".

30. What does G mean, "Society is an organism, not a machine"? 321

30. Society lives by the individual life of its parts, who would be stifled and suppressed if regimented under socialism.

31. What was "free trade in land"? 321-22

31. A British movement to free land from all restrictions on sale and use, in the belief that the market would then allocate land to its best use. British land had long been subject to primogeniture and entail and other restrictions on alienation, known collectively as mortmain (dead hand) provisions because they were imposed by persons now dead on persons now living. (Mortmain, a legal term from the French, should not be confused with the Italian mano morto, a method of flirtation (or sexual harassment, depending where you stand on this touchy issue).)

Free trade in land was the conservative version of land reform, then and there just as here and now in the U.S.A. The matter is hardly mentioned in Elwood Lawrence, HG in the British Isles, but

is extensively treated in Roy Douglas, Land, People and Politics.

32. How does G criticize free trade in land?

32. It merely allows "the ownership of land to assume more quickly the form to which it tends", i.e. the form of concentration. So if the objective be to equalize the distribution of economic power, free trade in land would not help.

33. How does G criticize census data which show mean farm sizes falling? 322-23

33. a. Value per acre is rising faster than acres per farm are falling, so in value terms the mean size is rising.

b. The share of the population owning land is falling.

A few years later G did a much better job on this point, in an article called "The March of Concentration". He was challenged and put down rudely by (former) General Francis A. Walker, Director of the Census, President of M.I.T., and Founder and First President of the American Economic Association -- a formidable figure indeed. G replied heatedly in a celebrated debate in which he demolished Walker by inventing what is now called the Lorenz Curve, a means of expressing concentration as dispersion around the mean, rather than simply the mean itself.

This debate may be found as an appendix to most editions of George's later book Social Problems.

Since that time the Census has reported on farm size by ranking farms according to size and telling us what % of the farms contain what % of the land, the way G said they should. And the trend of concentration has been consistently upwards from then to now. G's analysis and forecast were sensationally right.

G's only failing in this matter is that he misidentified the bed of Procrustes, saying that operating economies of scale, rising with the size of machinery, are what make farms get larger. Veblen is more on target here when he says that landholding units grow larger of their own accord, without regard to operating economies. Landholding units are the bed of Procrustes that make operations grow larger.

Piling irony upon irony, Veblen who sees this so clearly in farming fails to see it anywhere else and is generally classed as a "technological determinist", like Marx. Perhaps this is because he was a farm boy and knew more about farming than industrial operations. (As to Marx he was a professional revolutionary with little industrial experience except as a reporter.)

34. G cites California farms of 5,000 to 60,000 acres; and Dakota farms of 100,000 acres. Since 1879 which have gotten larger, Dakota farms or California farms?

34. Today we find several California farms larger than 60,000 acres; Boswell's is about 200,000 acres, and SP, Irvine, Newhall, Salyer, Tenneco, Rancho California (Kaiser-Aetna), Mission Viejo, Texaco, Arco, Chevron, Shell and others are right up there. But in (North and South) Dakota, where the value of land is much lower per acre than in California, there is no farm of 100,000 acres. There is also much less dispersion around the mean than in California. Dakota is not exempt from the trend toward concentration, but in California the trend is much stronger.

Are there greater economies to scale of operations in California than the Dakotas? Not likely: Dakota is flat, flat land where small grains and sugar beets are the best use. But the speculative value of farm land in California is much higher: climate and location are ideal for high-valued crops, cheap subsidized irrigation water supplies keep increasing, and urbanization is ubiquitous. When we are trying to understand why this drift toward concentration is so strong and persistent, Veblen's Procrustean bed of speculative holdings may explain more than G's operating economies -- and in a more consistently Georgist manner.

35. What were the "3 Fs"?

35. No, no, not that old "feellie" joke. "3 Fs" were the demands of Parnell and other "moderate" reform leaders in the British Isles. They were Fair Rent; Fixity of Tenure; and Free Sale (of the tenant's interest). The basic idea was to carve out of the landholder's estate a separate interest for the tenant, which he could regard as his property and even sell to others.

3 Fs was strong in Ulster, and was also called "Ulster Tenant Right", which is what G calls it on p.324.

It is something like the way residential rent control in New York City has evolved in our times.

36. How did G evaluate rent control, i.e. things like the "3 Fs".
324

36. "...the tenants of the first landlords, who would become landlords in their turn, would profit by the increase."

In recent years Chicago-type economists have churned out many books attacking rent controls, and they say little more than G says here on p.324. Again we see G anticipating thinking that has become commonplace since he wrote. Yet in deep ignorance of G, many assume they are attacking G when they attack rent controls.

37. What is "plottage", and how would G feel about it? 323-24; 327

37. G does not use the word plottage, but the idea. Plottage is a real estate term for the increment in value per square foot (or acre, etc.) that is realized by assembling small parcels into larger ones. Plottage is positive only when larger parcels are more economical to develop and operate.

G clearly believes that plottage is generally positive, so that laws against land assembly do more harm than good. By clear inference he would also oppose laws forcing subdivision, laws such as those which Napoleon Duarte is weakly pressing in El Salvador, and which Cory Aquino is even more weakly dangling as bait before the insurgents in the Philippines.

G may be missing two points here, an economical and a political one. Economically the small farms have proven much more viable than the believers in scale predict, and the forces leading to concentration are more like those described by Veblen than the operating economies of scale here stressed by G.

Politically, small farmers in settling the American west have often organized to face down and tax the large ones and thus create more small ones. The Homestead Act of 1862 did not prevent most of the public lands' being given away in sweetheart deals to land barons like Leland Stanford and Jim Hill; but it did plant enough homesteaders around to organize counties and various public improvement districts that, in some areas, succeeded in taxing the

lands of the Stanfords and Hills. One such area is the east side of the San Joaquin Valley.

38. If land were divided in equal shares, who would be left out?
325

38. The increase of population. This was indeed the history of New England in the 17th century. The Puritans came from English villages where much land was held in common, and they applied the same system here only moreso. The New England "village green" or commons (like the well-known Boston Commons) is a vestige of what was originally a universal system. At first the old settlers welcomed newcomers and shared land with them. They needed friends and neighbors and soldiers to withstand Indian attacks. But in time the old settlers, feeling more secure, converted the lands to private holdings and let the newcomers come as second-class citizens.

"Newcomers" include not just immigrants from Europe, but immigrants from the future, i.e. children. Families of 12 to 15 were the norm at that time and place, and most of them got left out. Too, there are always Scarlet Letter children, seldom less than 10% of any population, and they are people too. Add also the orphans and widows and cripples and war casualties: in any system there are plenty of ways that insiders beget outsiders.

39. What is morcellement? 326

39. Division of land into small holdings or "morsels". The word is French because the practise is French and Belgian. The Code Napoleon mandates French testators to divide their lands equally among all their children -- the reverse of the English nobility's land covenants mandating primogeniture.

French practise has gone even further and mandated parcellement as well. Parcellement means each heir must receive an equal quantity of each class of land: village land, plowland, pasture and woodland. Thus each holding consists of several separate parts, and in some areas farmers spend much of their work days travelling from parcel to parcel.

In recent times the French have tried to reassemble scattered holdings into more rational units through -- naturally -- expensive subsidy programs at the expense of the general taxpayer, the poor sap who is always bled to bail out landholders with

problems.

40. What is "rack-renting"? 326

40. A pejorative description of charging a market rent.

41. Why, according to M. de Laveleye, do largeholders need smallholders? 327

41. As a "rampart and safeguard for the holders of large estates." Accordingly, statesman in other respects reactionary have been known to push programs to support smallholders. Otto von Bismarck and Adolph Hitler come to mind in Germany, and Theodore Roosevelt in the U.S.A.

Veblen seems to have overlooked this phenomenon when drawing his "red line of cleavage". The smallholder is, especially if aged, often a militant supporter of property, even though he is not an absentee owner at all. (American homesteaders were often more radical, as discussed in §37. The difference may have been their relative youth, and the method by which they acquired their holdings. Homesteaders were required to reside on their farms, often undergoing severe privations.)

It is pathetic how little the "masses" require from the "classes" to enlist their support; and amazing how grudgingly the classes allow them that little.

Chapter II: "The True Remedy"

1. How does G phrase the true remedy? 328

1. "We must make land common property". G was not one to pussyfoot. Most people would have avoided the shock effect of that phrase, whose connotations go well beyond what G really intends when he gets down to implementation.

G knew what he was doing. Like Mill, G believed in taking an extreme position in order to make it easier for others to achieve moderate results. That was his chosen role, and he played it well, his name having become a synonym for the policies he espoused.

2. What does G mean, "The laws of the universe are harmonious"? 329

2. The specific reference is to justice: if our remedy "is the true one, it must be consistent with justice".

More generally, G's effort is to identify and work with transcendent, lasting and universal principles. Like Washington, Jefferson and Franklin, G is a deist in spirit, a believer in the rationality and consistency of the universe. If you ever immerse yourself in mathematics deeply enough to find different proofs of the same proposition, you recognize the epiphany when it all comes together, and everything supports and confirms everything else.

More specifically, G refutes the commonplace idea that we must choose between equity and efficiency. That is simply a smokescreen to keep us from achieving either. G identifies a policy that brings us both at once.

Self-quiz # 18, Ec. 121G, W87

Covers Progress and Poverty, Book VII, Justice of the Remedy

Chap. 1: "The Injustice of Private Property in Land"

1. What is the basis of property rights? 334

1. The right of a person to himself.

2. What well-known philosophers anticipated G's formulation?

2. John Locke, Two Treatises on Civil Government, 1690; Thomas Jefferson, Declaration of Independence, 1776; Abraham Lincoln, Emancipation Proclamation, 1862.

3. Whom is G quoting, "the rain falls alike upon just and unjust"? 336

3. Jesus, Sermon on the Mount. In those days most literate people were conversant with the Bible. Some of them still are.

4. What is his point?

4. Nature gives only to labor, no more to the just than the unjust.

5. Is there really "no escape from this position", 336, that rent is part of the fruits of labor?

5. The marginal-productivity theory of distribution is such an escape. The "fruits of labor" are only the marginal product of labor times the quantity of labor, leaving rent as the product of land, and interest as the product of capital.

G, who did so much to pioneer a marginal productivity approach to wage determination, may seem here to be regressing to a pure labor theory of value, but his meaning, as developed elsewhere, is more subtle and defensible. He recognizes that labor's direct product is only what it "adds" to output, and rent imputes to land. But he sees this rent as the indirect product of the people in the community who by their "presence" generate land rents. Their "presence" causes demand for land; and also generates spillover benefits that increase the productivity of land.

6. Why does the law distinguish so carefully between personal property and real estate? 337

6. "Personal" property in tax and property law means movable property. Movable property in feudal law belonged to private persons, hence movable = personal.

To whom did land belong? To the public, through the King. The English King who established this system was a Frenchman, William the Conqueror, whose court language was naturally French, in which "real" means royal. "Real estate" means the King's property. Others hold land merely as his tenants. We have abolished kings in this country, but not sovereignty, which we have merely transferred to state governments (the Federal government shares sovereignty over federal lands in a complex and shifting pattern which I will not sort out here).

Buildings attached to land are a mixed bag. The lawyers have let them merge with land as "real estate", possibly because improvements made by tenants on leased land are swallowed up by the landholder's interest when the lease ends. G is pointing out they actually have more in common with personal property, economically: because they are capital, they are built and they wear out.

This is probably one reason G resists the classical distinction of fixed vs. circulating capital. Fixed capital corresponds pretty much to buildings, and circulating capital corresponds to personal property. The classical economists may have been conceding too much to the lawyers' treatment of buildings as "real", hence in some sense "fixed", like land.

The upshot? Classical economists would have improved their analysis had they emphasized that buildings are capital, in spite of being fused with land in the word "real estate". But G would also have improved his analysis had he allowed that capital affixed to land circulates a lot slower than most personal property. In his commendable zeal to make the first point, he obscured the second.

And you? You should be smart enough to see where each was

right, and each was wrong. Simply keep three categories in mind: A = land; B = buildings; C = personal property. A+B = real estate; B+C = capital. B is the overlapping part which is both real estate and capital.

The classical distinction of fixed and circulating capital lives today in the macro treatment of investment. In macro-economic analysis and NIPA accounts, investment is only "Investment" if the capital is to last longer than one year. Investment in circulating capital is assumed to happen automatically to replace consumption. This arbitrarily different treatment of two kinds of investment is a vestige of the legal propensity to differentiate two kinds of capital.

7. Is it clear that all men have an equal right to breathe the air, as alleged? 338

7. Not if you follow Prof. Ronald Coase of the U. of Chicago; or the Board of the South Coast Air Quality Management District. Ancient polluters with long histories of pollution are a good deal more equal than others: they are deemed by Coase and The Board to have established a prescriptive property right, a sacred vested interest to continue polluting. Those wanting to breathe clean air must pay for the privilege. Pay whom? Why, pay the Ancient and Honorable Polluters, who else?

Even in the absence of these abominations, it would remain true that to breathe clean air you must locate where the air is clean, and those locations rent or sell at premium values.

8. Can we not suppose that some men have a right to be in this world and others no right? 338

8. Some people have no problem with that supposition. They use the "lifeboat theorem" of Prof. Garrett Hardin of Sta. Barbara, who says the world is a lifeboat and those on board should keep off new boarders lest they swamp the boat and destroy all. Hardin is only rephrasing Malthus, as quoted by G, 338-39n.

One of the great ironies is that Malthus was praised by Keynes, and is often cited today for his underconsumptionist views, which is to say he believed unemployment results from overproduction. It is hard to reconcile that with his belief that overbreeding brings into the world people for whom production cannot provide. The only

common thread there is pessimism, a conviction that nothing will work.

9. Whom is G paraphrasing, "For what are we but tenants for a day?" 339

9. Moses. See Leviticus 25:23

10. What is a "fee simple"? 339

10. The word "fee" derives from "feudal", and imports that the land is held from some superior to whom services are due. "Fealty" (loyalty) was also due, indicating the relationship was personal and/or patriotic, not purely commercial -- absentee ownership, especially foreign holding of land in fee was originally unthinkable.

What do we care today about ancient English Kings? Because our law of real property came down from them in the "common law", enshrined in most state constitutions. Only the sovereign really "owns" land.

"Tenure" of land means holding -- not owning. Thus "landholder", not "landowner", is the legally accurate term. Individuals hold from the sovereign, subject to various overriding powers which are still called "servitudes", such as taxation, police power, eminent domain, and control of fish and game (which lawyers call ferae naturae, to make sure no one knows what they are talking about). Ferae naturae are reserved to the sovereign, hence the power of game wardens to enter private land, and the application of bag limits to landholders same as others.

The folk saying "I can do what I want on my own land" is a belligerent assertion rather than a legal truth. The only unconditional landholding is the "allodial" ownership, which G mentions later. It means ownership not subject to a sovereign. It is a rare bird: it means you are the sovereign. The Prince of Monaco and the Duke of Lichtenstein might qualify. Various American adventurers have tried it and failed.

Landholders who fail to perform their servitudes are subject to "escheat", i.e. reversion of land to the sovereign. The most familiar form of escheat is loss of land title for failure to pay taxes. The sovereign State of California has delegated this power

to counties.

"Fee simple" is not simple; it only says the estate is inheritable free of any limitation to particular heirs. Another kind of fee is "fee tail" (as in entailed estate), meaning that land can not be alienated outside the family, "the heirs of his body" being a common expression (monogamy and real property are closely related institutions). "Failure of issue" means the fee must revert to the grantor or his successors in interest. ("Fee tail female" means that the estate passes through the female line. If you can say that without smirking you may get into law school.)

Entails are generally illegal in this country, most states having followed Virginia where Th. Jefferson took the lead in outlawing entail. But other kinds of deed restrictions and covenants are common, where not in violation of other laws. Their use for racial and religious discrimination was once common, but is now illegal.

(One sees references to freeholds and copyholds. What are they? All fee estates are freeholds, but not all freeholds are fee estates in land. A freehold was an interest in land held by free men, and was the only kind of interest in land protected by the King's courts. A freehold was often just a life estate. "Copyholds" were estates for a term of years. Note in both kinds of tenure there is a term, or time limit.)

11. What does "seized of" mean? 340

11. Possessing title to land. It is also spelled seised, and like seize in the usual sense comes from the French saisir, to seize. This is no accident: land tenure originates in seizure, and the law has simply formalized and legitimized the process.

12. How does the poorest infant born become "seized of" a right to land equal to that of the Astors (then the largest landholders in New York)? 338-40.

12. Here we have the heart of G's philosophy, in which a nation is an extended family in which being born gives you equal rights to land. This is a rather more practical application of the same theology that today says being conceived gives you a right to be born. G said that being born gives you an equal right to live, hence an equal right to the earth itself. This is "right-to-life"

carried to its logical conclusion. (G did not enter into the abortion question, and it is only speculation to guess how he might have viewed it, or tied it into the present point.)

G often stresses that the world is occupied by succeeding generations, so equal rights means nothing unless every member of every new generation, however humble or helpless, be granted equal rights.

Th. Jefferson had said much the same, as brought out by G on p. 545. "All men are created equal; ... they are endowed by their Creator with certain unalienable rights ..." With what can the Creator endow us but that which is the Creator's to dispense, i.e. Creation, the Earth.

Whether that has any literal basis we may never know, but if we believe it should be true, and act accordingly, that makes it true in practise. For we, the nation as a community, have that power, which Jefferson imputes to the Creator, to dispose over the Earth. And it is undeniably a concept which attended the birth of the nation and which most Americans seem to take seriously. G is simply making it concrete.

How about the "unalienable" part? Just as you cannot sell your child into slavery, you cannot sell or trade away your child's birthright, a piece of the Earth; nor can you buy or trade for the birthright of others' children. That is the meaning of "unalienable" rights.

It is up to the young to keep reminding the old of this, else it is easily forgotten in the rush to help pensioners, gray panthers, annuitants and retired homeowners. Young people today have grown less conscious of their rights, thanks in part to the hypnosis of TV and the decline of literacy, and old people have become more selfish because they live so long. So the system is increasingly stacked against the young, who find out about it when they go to buy their first home.

13. What California Governor borrowed G's wording, "unjustly enriched"? 341

13. Jerry Brown, referring to land value increments enjoyed by holders of desert land to which the State brought subsidized water. Interestingly, this was the very place, with some of the

same large landholdings, that moved 6 120 years ago to write his first book, Our Land and Land Policy.

14. How can California land titles go back to a king of Spain? Is this just fiction? 342

14. The treaty of Guadalupe-Hidalgo, 1848, by which Mexico ceded California and other areas to the U.S.A., provided that existing land titles would be recognized and undisturbed. Earlier when Mexico had rebelled successfully against Spain, the Spanish titles were likewise validated.

When you buy title to land the title is in the form of a chain going back to the first appropriator who followed our form of property law. For years there were batteries of lawyers in Mexico City and Madrid tracing back titles. Occasionally flaws were found, resulting in conflicting claims. Even in recent years one Reyes Tijerina made a huge fuss by finding an ancient flaw in title to a vast part of New Mexico, which he claimed as his.

Since the Spanish had originally expropriated the Indians there was nothing ethical about "honoring" the Spanish titles -- it was a political and military decision. After the American Revolution, indeed, the lands of many Tories like the De Lancey family of New York were confiscated. Some 1/3 of the lands in the original 13 colonies were transferred in that way. The lands of hundreds of Indian tribes were routinely confiscated throughout American history.

The Spanish have led a charmed life as their empire melted away, however: the Treaty of Paris ending the Spanish-American war also validated Spanish titles in Cuba and the Philippines. Those in the Philippines also survived the Japanese occupation, the American return (in spite of their obvious collaboration with the Japanese), and continue today as major obstacles to economic democracy in the Philippines.

The Church has not been so lucky. Many countries have confiscated Church holdings over the centuries.

Chapter II: "The Enslavement of Laborers the Ultimate Results of Private Property in Land"

1. What is philology? 350

1. The study of speech to shed light on cultural history. It is an application of linguistics.

2. Does nobility give land? 351

2. Rather, land gives nobility. The world is full of "decayed nobility", who lost their land and retain only their noble titles. They become pathetic or comic material for opera bouffe, and cease to count for much.

3. When did English landlords shake off the obligation of providing for the defense of the country? 351

3. In stages. The abolition of military tenures by the Long Parliament was a major step (p.383). Tariffs and other excise taxes were introduced to pay for national defense.

The British taxpayer then was squeezed to do the same for many of the constituent states of the British "Empire". Britain always ruled by allying with local landlords who sold out their own countries and welcomed the British army because it relieved them, too, of paying for national defense and internal suppression. The Indian name for such landlords is "Zamindar". A more generic term is "cacique".

Today it is American taxpayers who are used in this way, to relieve landlords in Latin America, Africa, Japan, the middle east and elsewhere of paying for their own defense.

4. Why are slavery and serfdom useful to landlords only in sparsely settled countries? 352

4. To keep labor from moving to free land. In settled countries labor may be milked through the market, where labor is free to compete for starvation wages.

5. Why did the planters of the Southeastern U.S. sustain no loss from the loss of slaves? 354

5. Because they kept control of the land, by G. He is oversimplifying: some plantations were divided, and many changed hands. But the system remained, so those without land continued to

be exploited.

In many areas they instituted peonage (debt slavery) that was not notably different from the old slavery. Every time the issue reached the U.S. Supreme Court it threw out the state laws supporting peonage, but not many peons can carry their cases to the U.S. Supreme Court, and the recurrence of Alabama and Georgia laws that had to be thrown out makes it clear that old ways die hard.

6. What happened to the "great movement" of negro emigration that G saw commencing? 354-55

6. Emigration from some parts of the old South was made very difficult at times by organized planters wanting to keep their cheap labor and enforce peonage. If G means migration to the northern U.S.A., that was not massive until considerably later.

The recent development of civil rights in the South, coupled with labor-saving machinery, has changed the landholder's preferred strategy. Rather than keep cheap field hands available the landholder would just as soon see them move away, to be replaced by the more docile machines, trees, and cattle that are taking over southern farmlands. The landholder still holds all the cards.

7. What sustained wage rates in the U.S. in spite of land monopoly? 356

7. The frontier. A few years later Frederick J. Turner incorporated G's idea (without credit) in his famous essay "The Frontier in American History", and other works. It is known as the "safety-valve theory", the frontier being the safety-valve to relieve excessive pressure on wages in the east.

To be sure, Turner said more, he said the frontier had shaped the American character. But on p.390 we find G saying exactly that: "All that we are proud of in the American character, ..." etc.

G in fact inspired many leading thinkers, doers and writers of the next two generations. For an extended discussion of this see Eric Goldman, Rendezvous with Destiny.

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suburban farm land should be taxed, and the pure farm value left untouched. Britain used the concept in 1946 when it socialized the "development value" of suburban land (a policy it gradually abandoned, however). Riverside has used a related concept in imposing agricultural zoning over 5200 acres of citrus land, a procedure which is totally legal, whether or not it is economically wise.

3. How does G view those who think landholders deserve compensation? 362

3. They "still wear the collar of the Saxon thrall, and have been educated to look upon the "vested rights" of land owners with all the superstitious reverence that ancient Egyptians looked upon the crocodile."

4. How much compensation was paid to slaveholders at the time of the Emancipation Proclamation? 362

4. None, although many people wanted to, and one of those persons was Abe Lincoln. Lincoln's party lost considerable support in the elections of 1862 because of the Proclamation. The power of property rights to blind people to obvious wrong is the theme so masterfully developed in Mark Twain's classic Huckleberry Finn.

The Proclamation only purported to abolish slavery in states in rebellion and did not apply in border states nor in states then occupied by Union forces; and it had no force in the states still in rebellion, either. The 13th Amendment is the more telling document, and it does not forbid compensation. Congress can do nearly any fool thing it pleases, and often does. None was, however, actually paid.

The British Government, as G mentions, did compensate slaveholders in the BWI. Presumably it would have done the same thing in the southern states, had its troops succeeded in putting down the American revolution.

5. Is G committing an ethnic slur on p.366?

5. No, he is quoting someone else in the vernacular of the times, just as Mark Twain did in Huckleberry Finn. G might better have used quotation marks, and if writing today probably would. It would be hard to accuse anyone with G's views about equal rights

of ethnic bias, however. If he had any it was anti-Chinese, an attitude that permeated the labor movement in San Francisco. However in a notable incident he once lost an election by refusing the support of labor leader Dennis Kearney because of Kearney's bigotry.

6. Did anyone else ever propose to go farther than G and confiscate improvements as well as land? 367

6. Karl Marx, Nicolai Lenin, Mao-tse Tung, etc. But it is not only from the extreme left that such confiscation proceeds. Our present tax system, framed and promoted by conservatives, confiscates both capital and labor routinely, to protect land from direct taxation.

Chapter IV: "Private Property in Land Historically Considered"

1. Has any society ever recognized common rights to land? 370-84

1. Many societies have, including our own at various times. The illustrations G gives are generally valid. You should know something of the historical role of Lycurgus, Solon, Licinian Laws, Gracchus, Roman Law (see 372n), the Teutonic mark (as in Ostmark, aka Austria), latifundia, fief, primogeniture, entail, infeudation.

Does it strike you as harsh to be asked to know or look up scholarly and historical references in a writer so learned as G? If so, give some thought to this: G never finished high school. Should you know as much history when you graduate from this University? You may, but only if you get turned on as he did. Motivation works wonders.

The "military frontier" is a useful concept. Historically, nations used to lure families to frontiers by giving them land and freedom. Hence conditions of equal landholdings were found on frontiers, while lands safe inside the core concentrated into a few hands. Today, however, soldiers are available cheaper: we enlist foreigners into our military service by offering them simply American citizenship.

Andrew Bisset, The Strength of Nations, cited at 384n, had a deep effect on G's thinking.

Chapter V: "Of Property in Land in the United States"

1. What is distinctive about placer mining? 385 (Placer rhymes with gasser, and is a corruption of the Spanish plaza).

1. It is a simple hand operation, requiring no machinery and little space. Hence, anyone could do it.

2. What were the "pueblo lands" of San Francisco? 385-86

2. City-owned lands, set aside originally under Spanish law, to provide for future population growth. (Pueblo = city.)

3. What happened to San Francisco's pueblo lands? 386

3. They were "reduced to private ownership in large tracts". The times being as they were, it is a good guess that they went to the wrong people at sweetheart prices.

Certain cities, notably Los Angeles, also have ancient "pueblo rights" to water. L.A. tried to give its rights away, too, in the spirit of the times, but finally got them back and created the L.A. D.W.P. which has waxed mighty.

4. How were the placer lands treated? 386

4. As common property, subject to use on a strict "use it or lose it" basis, in limited quantity. Title remained in the government; individual holdings were "possessory" claims only. "The essential idea of the mining regulations was to prevent forestalling and monopoly."

Other sources tell us that California's "appropriative" doctrine of water law originated here, too. Miner's needing water for mining operations got it on a "right of use" basis. The later history of this doctrine has been one of perversion, however, as standards of what constitute "use" became lax.

Today in the Amazon there is a similar gold strike followed by a gold-washing operation with a similar proliferation of minute possessory interests and an ant-heap of labor-intensive activity. If you ever get a chance to see the documentary film on TV, it is mind-blowing.

5. What is "patenting" of lands? 387

5. Securing a title in fee simple from the government.

6. How does a "possessory title" differ from a fee-simple title to land? 387

6. A possessory title is ownership contingent on occupation of land, and ends when occupation ends. "Title" suggests formality, with documents in the county records, etc., but in fact is a shorthand term for any collection of facts that prove a right to possess. "Possession" seems to imply power and therefore permanence, and sometimes it works out that way; but legally it only implies temporary occupation, and is not permanent unless in "fee simple".

"Possessory" may be a shade too strong to describe rights of use, for mere intent to occupy may sometimes hold a possessory interest. The "sometimes", however, is slippery, and possessory interests in fact are often observed in a state of evolution as they "ripen" into de facto fee simple titles through custom, a custom that is of course nurtured assiduously by the holders of the possessory titles. Settlers tend to get ahead of formal systems of land titling, and occupy and use natural resources.

"Squatters' rights" were possessory interests which the government finally converted into fee simple titles under laws like the Preemption Act of 1841. The Mormon pioneers settled the Mormon states well before the Feds showed up to legitimize what they had done, and both sides agreed on some legal fictions that let the Mormon pattern of village living be passed off as complying with the residence requirements of the Homestead Act.

Appropriative water "rights" -- licenses, actually -- and broadcasting licenses are other examples of possessory interests ripening into permanent interests having the de facto characteristics of fee simple titles. Many aircraft landing rights, on the other hand, failed to be permanent and were lost when airlines were deregulated in the Carter Administration.

There are many other examples of squatters' being evicted, even after many generations, and some of our ancestors came here from the British Isles because the "clearances" and "enclosures" drove them from their ancestral lands. But this very day homeless

Covers Progress and Poverty, Book VIII, "Application of the Remedy"

Chapter I: "Private Property in Land Inconsistent with the Best Use of Land"

1. If Book VII dealt with equity and distribution, what does Book VIII deal with?

1. Efficiency and allocation.

2. What, rather than fee simple title in perpetuity, is necessary for the improvement of land? 397

2. Security for the improvements.

3. Where are costly buildings erected on leased ground? 399

3. New York and London are cited, but every city in the world could be added. Baltimore, Honolulu and Irvine are rather extreme cases where leaseholds are the rule rather than the exception. Rockefeller Center is a famous case from New York City.

4. Who said "The magic of property turns sand into gold"? 399

4. Arthur Young, an 18th century commentator on Flanders. Young's ideas are now identified with the modern name of Garrett Hardin who, as we saw earlier, also rephrases Malthus for modern readers.

5. How does G criticize Young? 399

5. He confused the incidental with the essential. It was not property in land, but security of improvements, that turned sand into gold.

6. Does fee simple title insure the best use of land? 401

6. It allows speculation, which often prevents the best use.

G might have said much, much more on this key point.

He might also have added that "rent-seeking", i.e. the effort to acquire fee simple title, often leads to perverse land uses. The premature development of western waters is a splendid case in point; so is premature broadcasting on submarginal channels.

squatters are being evicted from tents and cardboard box shelters in parts of Los Angeles. It boils down to a question of politics and power, who stays and who leaves. The meek have yet to inherit the earth.

The difference between possessory and fee simple titles may be summed up in resale value. People buy fee simple titles as "investments", a word used to imply the future resale value will equal or exceed the current price. This gives rise to absentee ownership and speculation. Possessory interests on the other hand are not for trafficking, they are for use only.

7. How did the early settlers of New England differ from those of Virginia and to the South? 388

7. New England settlers held land more in common. In fact they did more than G relates here: they taxed land according to its value, just as G advocates. Wm. Bradford's History of Plimouth Plantation describes the process in enough detail to make it clear that when the Puritans divided land into private parcels they taxed it "as ye valuation wente" in Bradford's antique spelling.

One result of this policy was dense settlement, urbanization, and rapid growth, both in New England and in areas which New Englanders settled: western New York, Ohio and Michigan, notably, where economic development proceeded faster than in states settled on the aristocratic basis.

G is making a different point here, and in the process understates the degree to which his policies had already some partial application and the validation of experience.

Chapter II: "How Equal Rights to the Land may be Asserted and Secured"

1. How does G propose to make land common property? 406

1. To appropriate rent by taxation.

2. How about other taxes? 406

2. He would abolish them. Hence the slogan "single tax", which came into use later.

Chapter III: "The Proposition Tried by the Canons of Taxation"

1. How will the rent tax affect incentives to produce? 408-14

1. It will not check production, but tend to increase it by destroying speculative rent. (413)

In fragments here and there G makes it clear that the tax is to be on latent rent, which is at any time a fixed amount independent of actual rent paid or realized through use. The base of the tax is to be land value. In short, he is talking about the existing property tax as modified to exempt personal property and improvements. That is what he means when he says the machinery is already in place.

2. Is the tax easy and cheap to collect? 414-16

2. Land cannot be concealed, it lies out of doors. The existing machinery of assessment and collection need not be expanded, just raise the tax rate, and stop assessing improvements and personal property (which is 90% of the assessor's workload anyway).

Dispense with the machinery for collecting all other taxes. Alternatively, if we can't live without the I.R.S., others have suggested modifying the income tax to exempt wages/salary income, offset capital income taxes by means of investment credits, and raise the rate on what is left: land incomes.

Indeed, were it not for G's followers we would probably have an income tax today that exempts land income. There were six Georgists in the U.S. House of Representatives in 1894 when the

income tax law of that year was passed. Madison and Hamilton had aborted any federal direct tax on land by inserting in the Constitution a requirement that any such tax must be apportioned among the states by population, a provision that assured the opposition of the more populous states. The Georgists succeeded in getting Congress to include land rents in the coverage of the 1894 Act, forcing the U.S. Supreme Court either to reject the Act, or allow the direct taxation of land incomes. The Court chose the former, thus leading to the 16th Amendment of 1913 which allowed direct taxation of income from all sources, including land.

3. Is the land tax "certain"? 416-18

Probably moreso than the other taxes described, but this section is mostly rhetorical and would require support.

4. Is the tax "equal"? 418-21

4. At last we see a credit to Adam Smith, whose canons these are.

Excise taxes (assuming they are shifted forward) fall unequally on breadwinners with large families, which only a Malthusian would regard as just. Of course, there are lots of them around, but G has at least already dealt with their position.

The personal income tax allows an exemption for each child. The exemption used to be high enough to notice, but time has eroded it away.

G's main point is that labor income should not be taxed equally with land income, since labor income is earned and land income is not, the landholder takes wealth from the general stock, returning nothing.

Chapter IV: "Indorsements and Objections"

1. What prior economists does G cite in favor of taxing land values? 422ff.

1. Ricardo, McCulloch, Mill, Fawcett, Quesnay and Turgot. He should have added Adam Smith. Later researchers have dug up many lesser writers who anticipated G, and a number of later economists who go a long way with him. Many of those are active today, and are surveyed and cited in yours truly's article, "Two Centuries of Economic Thought on Taxing Land Rents".

Self-quiz #20, Ec. 121G, W87

Covers Progress and Poverty, Book IX, Effects of the Remedy; and Book X, The Law of Human Progress.

Because time is running out, these are covered less intensively, hitting only some very high points that you should not miss.

1. How would G distribute the benefits of public spending? 440

1. The following is implicit, but important. Some benefits like schools would be like social dividends, of equal value to all. Many public works are of more value to some than others, because they serve some lands and not others. But these benefits would be recaptured by land taxation. The only benefits that would stay with the public would be those distributed equally.

2. Did G see any hope for the majority of men who do not think?
444-45

2. He sees prosperity and justice as removing the mental blocks that now chain most people to mediocrity, resistance to learning and progress, and general blockheadedness.

3. What future does G see for the rate of interest? 448

3. He mentions only in passing that the effect of land taxation is to make interest rates rise. He would have leaned much heavier on this point had he foreseen how seriously people would come to take the forecasts of Mill, Marx and Keynes about interest rates falling to zero. G correctly foresaw that taxing land would abate the overpricing of land that at times forced rates of return down toward zero. For you must realize that G's propaganda bore fruit, even though not in the 100% manner that he favored. But Americans turned to the property tax more heavily than ever in the 40 years after he wrote, and assessors were under a new pressure to value buildings lower and land higher. Many of G's leading disciples were assessors, who wrote new manuals on land assessment and led a very practical movement to stretch the latitude of assessors in the direction of upvaluing land and downvaluing improvements.

4. Does G see self-interest or greed as the motor of human progress? 457-72

4. No, that is a Chicago School perversion. Pp. 457-72 are one of the most inspiring sermons ever written on what people will do to win respect. It is much too good for me to summarize: you just

2. What is McCulloch's reservation.

How does G answer it? 425

2. It may be hard for assessors to distinguish land from improvements.

See 425-26

3. What is the political objection? 426

3. That those not holding land will vote for extravagances if they are not taxed. E.R.A. Seligman later took up this point and made much of it.

G's answer on 427 is as follows. First he points out that the present system of indirect taxes leads voters to support extravagance because they do not know what they are paying, and there is no class to oppose extravagance. Second, land taxes would force division and increase the number of conscious taxpayers (this is not entirely consistent with earlier assertions that economies of scale are dominant, that plottage is positive and holdings must get larger).

The impressive part is his observation on the motivation of good citizens and voters. "...it is the consciousness of feeling that he is an integral part of the community; that its prosperity is his prosperity, and its disgrace is his shame." G's inspirational genius is his ability to articulate the best side of human nature.

4. Why has the land tax not already been adopted, if it is so good? 427

4. Those on whom it falls cannot shift it. They are conscious of their interest, organized and powerful.

have to read it, and if you are unmoved, "better soak your head in a bucket of coal, for there's no romance in your soul."

5. What is the difference of kind that distinguishes the lowest societies of mankind from the highest animals? 476

5. The power of improvement, which makes man the progressive animal. (Note that G, the deist, is not insensitive to evolution and progress -- but then, we should have known that from the title of his book.)

6. Why do some groups of men show this power more than others? 477

6. Neither race, nor location and climate, are consistently associated with superior achievement. "All these differences are evidently connected with social development."

7. Where does G depart from Darwin, Spencer, and the social evolutionists? 478

7. G does not see gradual race improvement through natural selection as a significant force compared with social development. G also objects to the fatalism, materialism and predestinarianism of evolutionists like Darwin, Huxley, Spencer and Marx, but he treats Spencer with kid gloves at this time because Spencer seems to be an ally. Later, Spencer is to recant, and G to attack him with guns blazing in A Perplexed Philosopher.

G's position was greatly strengthened by his alliance with Alfred Russel Wallace who had discovered and published the theory of natural selection simultaneously with Darwin.

8. What does natural selection fail to explain? 485

8. The petrification and decline of civilizations. "The earth is the tomb of dead empires, no less than of dead men." Arnold Toynbee devoted his life to illustrating that theme in his many-volume A Study of History. (Toynbee's father, ironically, had died of a stroke whose proximate cause was his delivering a lecture attacking HG).

9. What causes progress? 507

9. "Mental power is ... the motor of progress, and men tend to advance in proportion to the mental power expended in progression ... (which is) what is left after what is required for

non-progressive purposes ... (which are) maintenance and conflict.

Equality, meaning justice, is necessary to minimize conflict.
(Cf. today's slogan "If you want peace, work for justice".)

Filling out tax forms, lobbying in Sacto. and Washington, protecting your turf, applying for grants, all these silly zero-sum games we play by choice or necessity, these waste our powers while life slips by and we miss our destinies.

10. How does G sum it up? What is the law of progress? 508

10. Association in equality is the law of progress.

11. How may modern civilization decline? 528

11. From unequal distribution of wealth and power, causing corruption of political democracy with demagogues serving the rich while catering to the masses. The nouveaux riches have all the power without any of the virtues of an aristocracy. (534)

Whence shall come the new barbarians? From the slums. How shall learning perish? Men will cease to read. 538 Art will become decadent; crime and suicide increase; religion will die, and nothing arise to take its place.

Shall we put that into an econometric model? Not likely, but we know those are more important matters than most of what does go into the models, and all of what comes out.

Final Exam, Ecs. 121G, W87

Answer as many or as few of the following questions as you wish. Write on the front of your exam the numbers of the questions you are answering, in the order you present the answers. Answers will be graded on the assumption you have $180/x$ minutes per question, where x is the number of questions answered.

1. A. What is the effect on distribution of increasing population:

- i. By G?
- ii. By V?
- iii. By Mill?

B. Who or what is correct?

2. Ditto for improvements in the arts?

3. How does G explain cycles of boom and bust?
How might he have improved his analysis?

4. What are:

- a. Capitalization of flows into funds?
- b. Overcapitalization, as per V?
- c. Speculative value, as per G?

5. In Progress and Poverty:

- a. What is "The Problem"?
- b. What causes the problem?
- c. What remedy is advanced?
- d. How is the remedy to be implemented?

6. (Warning: if you are easily rattled skip this question -- don't even read it!) (I've moved it to the end, to make that easier.)

7. G makes functional distribution the core of economic theory.

- a. What is functional distribution?
- b. What is its role in today's conventional fashions in economic theory?

8. It is common today to assume there has to be a "trade-off" between distributive equity and allocative efficiency.

This makes of equity (or justice, in G's terms) a softheaded value we achieve only by sacrificing efficiency and overall gross output. And it makes efficiency a cruel taskmaster that consigns the poor to misery in order to improve life for everyone (else).

G emphasizes distributive equity. Would his remedy sacrifice efficiency or incentives?

V emphasizes efficiency. He criticizes the absentee owners who call themselves business leadership for restricting output, for maximizing monopoly profits instead of output. The implied remedy is to break up monopolies. Would this interfere with equity or justice?

9. G's distributive theory makes it clear that rates of return on new investments can be forced down at the same time that profits are rising (and the stock market soaring). Explain how.

10. a. Are land and capital mutually convertible?

b. Are labor and capital " " ?

c. Are land and labor " " ?

11. How did G's correlation and coordination of the laws of distribution lead into the modern theory of marginal productivity, distributive shares, and product exhaustion through imputation?

12. a. How does residual imputation differ from direct imputation of a factor share?

b. Which factor's reward did G treat as the residual share? Has this convention survived?

13. The present fashion among economists is to say that improvements in the arts which are "labor-saving" are thereby also capital-using; or, they cause substituting capital for labor. To Mill and George, on the other hand, labor-saving means land-using, or substituting land for labor. What, according to G, is the effect of labor-saving arts on the use of capital?

14. How, in G's model, can capital be increased? (There are more ways than one.)

15. How are real wages affected by locking up superior land?

16. Was G a "supply-side" economist? Was Veblen?

17. How does G differ from Mill as to the effect on distribution

of increased population? How about Veblen?

18. Ditto for improved arts of production.

19. Is land speculation chronic or episodic?

20. Compare and contrast the views of G and V on economies of scale:

- a. In agriculture.
- b. In general.

21. Suicide is the second highest cause of death among American teen-agers. The suicide rate in the U.S. has risen 50% since 1960. It is higher than the casualty rate in wartime. It is now pushing parity with the auto accident rate (part of which stems from suicidal behavior). An equal number die each year from cirrhosis of the liver, usually a result of suicidal or escapist drinking. Pulmonary diseases known to be aggravated by voluntary smoking are a major cause of death. Obesity from junk-food addictions is another cause.

How would G interpret these phenomena?

22. Compare and contrast V's absentee ownership concept with G's speculation.

23. In what particulars does V reinforce and support G? In what differ?

24. Where (geographically) do depressions originate and run to the greatest extremes of boom and bust?

25. How does G use slavery to help compare the quantity of rent and the quantity of wages?

26. What two bases of property rights are discussed by G and V?

27. What, by V, causes unemployment? Compare and contrast G's explanation.

28. Are buildings real estate, capital, or both? (If both, why do lawyers distinguish real estate from other property?)

What are the implications of your answer for tax policy?

29. Why does land speculation presuppose fee simple titles?

30. What, by G, are the conditions prerequisite for progress of civilization (in the arts, organization, happiness, manners and morals)?

WARNING: DO NOT READ ANY FURTHER IF YOU ARE EASILY RATTLED!

6. You have the bad luck to be in the "trough generation" as far as academic performance goes: those after you are doing better than you, just as those did who went before. This may not be your fault, and therefore not fair, but life is not fair and no one but you can compensate for it now.

But there is good news! According to G, you have untapped mental powers which only your gnawing fear of want keeps you from developing (see attached excerpt from pp. 457-72). Let us hope he is right! Because you are going to need it.

By V, most of what we call needs are socially prescribed and not actual necessities of life.

Has studying these two sages made you suspect that you are hiding latent mental powers which you can tap and develop by controlling your anxieties about falling into the "open-mouthed relentless hell which yawns beneath civilized society"?

"In thinking of the possibilities of social organization, we are apt to assume that greed is the strongest of human motives. Nothing could be further from the truth.

Whence springs this lust for gain, to gratify which men tread everything pure and noble under their feet? From the existence of want. Poverty is the open-mouthed relentless hell which yawns beneath civilized society, (where) everyday men put poison to their mouths or pistols to their heads from fear of poverty.

And out of this condition of things arises a public opinion which enlists the desire for approbation as a power impelling the struggle to grasp. Men admire what they desire. The fear of want makes men admire above all things the possession of riches, and to become wealthy is to become respected, and admired, and influential.

Men instinctively admire virtue and truth, but the fear of want makes them more admire the rich and sympathize with the fortunate. He who by fraud and injustice gets a million will have more respect, and admiration, and influence than he who refuses it. His name is writ in the list of "our substantial citizens"; he may be a patron of arts and letters, and noble public institutions commemorate his name and fame. It is not as a monster that Satan tempts men, but as an angel; his promises are not alone of worldly goods, but of mental and moral principalities and powers.

Take those miserable men who go on striving to add riches to riches. What urges them still with ravenous greed is not merely habit, but the subtler gratifications which riches give -- power and influence, being respected, being men of mark in the community.

With abolition of the fear of want, the admiration of riches would decay, and men would seek respect in other modes than by the acquisition and display of wealth. In this way there would be brought to the management of public affairs the skill, attention, fidelity and integrity that can now be secured only for private interests. For a ribbon men have performed services no money could have bought.

Shortsighted is the philosophy which counts on selfishness as the master motive. If you would move men, to what shall you appeal? Not their pockets but their patriotism; not selfishness, but sympathy.

Self-interest is a mechanical force, but in loyalty to higher impulses men will give even life. There is yet a force which overcomes and drives out selfishness; a force which is the electricity of the moral universe; a force beside which all others are weak. And this force of forces, that now goes to waste, we may use for building up and ennobling society.

But would banishing fear of want destroy the stimulus to exertion? Want might be banished, but desire would remain. Man must be doing something, for in him throbs the creative impulse. Deny a man employment and he must die or go mad. It is not labor itself that is repugnant, it is only labor which produces nothing, exertion of which one cannot see the results.

The work which improves the condition of mankind is not done to secure a living. It is the work of men who perform it for its own sake. Where want was abolished, work of this sort would enormously increase. Work would be relieved by short hours, by change, by alternation of intellectual with manual occupations. From the mobility of labor and the mental activity which would be generated there would result advances in methods of production that we now cannot imagine.

Greatest of all the enormous wastes which the present constitution of society involves is that of mental power. How infinitesimal are the forces that advance civilization compared to forces that lie latent! How few are the thinkers, discoverers, inventors and organizers, compared with the mass of people. Yet such men are born in plenty; it is the conditions that permit so few to develop. When circumstances favor his development, what might otherwise pass for a common man rises into a hero or leader, discoverer or teacher, sage or saint. So widely has the sower scattered the seed; but alas for the stony ground. For one who attains his full stature, how many are stunted and deformed.

To remove the fear of want would be like turning water into a desert. Talents now hidden would come forth, for in these men who are wasting their energies in the scramble to be rich; in these who are turned into machines, or are chained by necessity to bench or plow; in children who are growing up in vice and ignorance, are powers of the highest order, talents the most splendid.

By a thousand interactions the members of every community are linked together. Even the fortunate who stand on the apex of the social pyramid suffer, though they know it not, from the want, ignorance and degradation that are underneath. Consider these things, and then say whether the change I propose would not be for the benefit of every one, even the greatest land holder.