

Applied Economics

13271

TEACHER'S MANUAL
For
APPLIED ECONOMICS

**Text books: PROTECTION OR FREE TRADE
and SOCIAL PROBLEMS
by HENRY GEORGE**

SECOND EDITION — — — — —

**HENRY GEORGE SCHOOL OF SOCIAL SCIENCE
50 EAST 69th STREET - NEW YORK 21, N. Y.**

Henry George School of Social Science

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

September, 1962

Dear Teacher:

Here is the new revised manual in Applied Economics (the second basic course, based on Henry George's Protection or Free Trade and Social Problems.) We are distributing this manual widely to teachers, although only a minority will use it, because of the information it contains and to keep you posted. We hope, too, that more teachers will become interested in this course.

It was a long overdue job, as the Protection or Free Trade part had not been revised since 1937, nor had the Social Problems part, since 1946. In the revision, the following changes have been made:

One manual, instead of two, for both parts of the 10-lesson course. (Manual is printed on one side, looseleaf, to allow for insertion of teacher's notes, etc. Students' lessons are to be printed on both sides.)

A trial first lesson questionnaire, as in Fundamental Economics.

Evening-up of the length of the lessons (20 - 25 questions per lesson, instead of more as in previous PFT course and fewer as in previous SP course).

Simplified questions, revision of "leading questions", omission of some obsolete material, and inclusion of questions on topics not previously covered.

Introduction of study supplements for each lesson. These help bring the subject up-to-date.

Introduction of answer sheets. These, and the supplements and lesson sheets will be distributed to students as in Fundamental Economics; e.g., at the end of Lesson II, students will receive Lesson III questions, supplement to Lesson III and answers to Lesson II. Thus, students do not receive answer sheets until the lesson under consideration is completed.

The subjects covered in this course have become very timely, especially international trade. Public attention is focussed on such matters as the proposed entry of Britain into the European Common Market, the relaxing of trade barriers in the United States with the proposed Trade Expansion Act, and the competition of rival trade blocs, including the Communist. Subjects covered in SP have also become timely, such as the farm problem, urban decay, etc.

Timely as the course is, however, it is still recommended as a follow-up to the first course in Fundamental Economics. Applied Economics is occasionally proposed as a first course to be offered directly to the public. But this has been tried, with not the best results. It seems to work best with those who have already been exposed to fundamental economic principles, and it carries the application of those principles to a wider area.

Applied Economics, however, ought to be taught more frequently as a follow-up to Fundamental Economics, and more students should be encouraged to study it. If for

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no other reason, Henry George School students should continue with courses because the fundamentals become fuzzy in their minds within a short time unless they are further studied and discussed. After all, they are exposed every day to the kind of thinking about economics that is heard on the streets, over the air, in the press, and in Congress.

Beyond that, the subjects covered are important in themselves. Many students who have absorbed the ideas in Progress and Poverty are not automatically free traders. They have imbibed prejudices from the past, and this subject, too, has to be thought out.

The sequence of the basic courses are: 1, Fundamental Economics; 2, Applied Economics 3, Science of Political Economy, this last based on the book of the same title by Henry George. The Manual Committee (Nancy Van Buskirk, James A. Murphy and Robert Clancy), having completed Applied Economics, will now start work on this third course. It is contemplated that it will be titled "Economic Science", and that the same kind of job will be done on it as in the first two courses - streamlining and improving the questions, providing study supplements for each lesson, bringing the subject up-to-date, while still recognizing the timelessness of basic principles.

Your suggestions for this project will be very welcome, especially as to supplements. Further, if you have any suggestions for, or spot any errors in the new Applied Economics course, we would appreciate hearing from you.

Sincerely,

Robert Clancy

Robert Clancy

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NOTE TO TEACHER

This course in APPLIED ECONOMICS has been prepared to follow the first course offered by the Henry George School, FUNDAMENTAL ECONOMICS, which is based on Henry George's Progress and Poverty. The student is therefore expected to be familiar with the basic principles taught in that course.

APPLIED ECONOMICS is based upon two others of Henry George's books: Protection or Free Trade and Social Problems. Like the first course, it is a ten-lesson course (two hours for each lesson), and is divided as follows:

Lesson I - Introduction

Lessons II - VI - Protection or Free Trade

Lessons VII - X - Social Problems

As in Fundamental Economics, each lesson (from II to X) is based on a reading assignment. There is a set of questions for each lesson, to be taken up in class. There are also study supplements for each lesson, which are designed to graphically illustrate some of the principles, or to bring the subject matter up-to-date and apply the basic principles to current conditions. Some time should be allowed in class for discussion of the supplements, either at the appropriate question, or at the end of the question-and-answer period. The teacher should further supplement the subject matter with news items, current writings, etc., and students should be encouraged to look for such items.

The purpose of this course is, as its name infers, to apply the principles learned in the basic course to problems, international and national. The main topic of the first part of the course is International Trade, and the issue to be resolved is whether domestic industry should be protected by tariffs or whether free trade should be permitted. George builds up a compelling argument for free trade, then shows that although it is a good thing by itself, free trade is inadequate, as it has the same effect as all other increases in productive power - that is, it eventually increases rent at the expense of wages and interest. To really benefit labor and industry, to really enjoy the fruits of full free trade, we must have free land as well as free trade. The final lesson of this section reviews George's remedy and also includes a discussion of George's ideas versus Socialism.

The text for the second part of the course, Social Problems, contains much useful discussion material. While Protection or Free Trade builds up a consecutive argument as does Progress and Poverty, Social Problems ranges over a wide variety of topics, covering, as Henry George says in his introductory note, "some points not touched upon, or but lightly touched upon, in Progress and Poverty." Among these topics are overproduction, public debts, the functions of government, the farm problem and urban problems.

This part of the course may be dealt with more informally. The question-and-answer method may be followed with good effect, but also make allowance for open discussion. Many of the topics concern conditions and problems in George's day, which are treated in a fundamental manner and so they may readily be applied to today's problems. This is done to some extent in the supplements, and it should be done further with current events.

The teacher need not feel shy about the technical nature of any of the subjects covered in this course, including international trade. They are handled in the same manner and

spirit as in Progress and Poverty. The important things are sound principles, correct thinking and "the familiar facts of intelligent observation." It is not necessary to delve into the technical aspects of international trade (or any of the other subjects), it is only advisable to be posted on current developments in the field as any well-informed layman might be. If (as very rarely occurs) any technical point comes up, the best treatment is to bring it back to the fundamental principles involved.

Many of the points in Protection or Free Trade and Social Problems are to some extent repetitive of Progress and Poverty, but this is a necessary repetition. It is surprising how many of the important points in the first course are forgotten or become hazy in the mind of the student in a short time, unless the subject is frequently studied and reviewed.

The course in APPLIED ECONOMICS should help to broaden the student's horizon: it should help him see that the fundamental principles he has learned apply over a wide range of problems, and it should enlarge his perspective so that he does not just see the Georgist analysis from a limited or isolated point of view; and his grasp of those principles should be strengthened.

LESSON I - INTRODUCTIONSuggestions to TeacherNotes

The students are presumed to have studied Fundamental Economics. The teacher may introduce the present course by briefly stating its scope and purpose - the application of fundamental economic principles to problems, international and national.

Have students fill out enrollment cards.

Spend some time (about a half-hour) reviewing the main points of Progress and Poverty. The students might be quizzed on the following points:

What is wealth?

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

Name and define the three avenues of distribution.

State the laws of rent, wages and interest.

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

What is the effect of land speculation?

What is the basic remedy proposed by Henry George, and what is his method for applying it?

What is the law of human progress, and how does George's remedy conform with this law?

Following this review, introduce the first part of the present course, International Trade. The concept of a free economy unhampered by land monopoly or taxes on production was outlined in Progress and Poverty. A free economy implies freedom of exchange, internationally as well as nationally. But tariffs have been regarded as a necessity, even by advocates of a free economy, in order to protect wages and interest in home industries from competition from "cheap foreign labor." This argument is thoroughly analyzed in this course from the point of view of fundamental economics.

Distribute Lesson I questionnaires to students. Most of the balance of the lesson may be spent in discussing the

questions in Lesson I, which is intended to serve the same purpose as Lesson I in Fundamental Economics - that is, to open the discussion. No agreement is necessary. The questions include points raised in Social Problems as well as Protection or Free Trade, and the student is invited to keep his lesson and compare his answers at the tenth lesson with his first lesson answers.

Textbooks should be available for purchase by the students. Protection or Free Trade may be sold alone at this lesson, and Social Problems may be saved for distribution at Lesson VI; or both books may be sold at this lesson.

Distribute Lesson II materials - questions based on the reading assignment, and a study supplement. At the end of each subsequent lesson, distribute the lesson and supplement for the following lesson, and the answer sheet for the lesson just concluded - the same procedure as in Fundamental Economics.

Conclude by assuring students that they need not worry about the technical nature of the subject of international trade (or any of the other subjects covered in this course). It will be handled in a lively, clear and readily understandable manner. The same approach is used as in Fundamental Economics. The student is especially urged to read Chapter III of Protection or Free Trade (although there are no questions based on this chapter), which contains an excellent summary of a scientific method that the intelligent layman can use in analyzing not only this problem but any other problem.

Notes

LESSON I(QUESTIONNAIRE)

	<u>First Lesson</u>	<u>Tenth Lesson</u>
1. Is a tariff a tax?	1.	
2. Can we safely eliminate all tariffs, quotas, reciprocal trade agreements and regulations?	2.	
3. Would free trade benefit equally every one in a country?	3.	
4. Does unrestricted dumping of goods into a country throw men out of work?	4.	
5. Is it bad for a country to export the following? a) money b) gold c) silver d) uranium	5. a b c d	
6. Is trade with an unfriendly country desirable?	6.	
7. Which of the following lead to better relations between nations? a) reciprocal trade agreements b) import duties c) free trade d) blocked currencies e) travel restrictions f) unlimited immigration	7. a b c d e f	
8. Should government regulate the following? a) prices b) land values c) wages d) interest rates e) profits f) value of money g) advertising h) monopolies	8. a b c d e f g h	
9. Is the income from government bonds economic interest?	9.	
10. Do low wages mean low cost of production?	10.	
11. Is trade within a country different from trade between countries?	11.	
12. Do machines throw people out of work?	12.	

LESSON I
(QUESTIONNAIRE)

	First Lesson	Tenth Lesson
13. Does increased production mean increased wages?	13.	
14. Do public debts enable the government to borrow from future production?	14.	
15. Should government be a guardian of the people's morals?	15.	

LESSON II

PART I - INTERNATIONAL TRADE. Textbook: PROTECTION OR FREE TRADE
by Henry GeorgeReading Assignment: Chaps. I. - VIProtection as a policy

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| <ol style="list-style-type: none">1. What is meant by protection as a national policy? (28)2. In promoting protection as a national policy, what do protectionists contend? (28)3. Is it correct to assume that the growth and prosperity of the United States has been due principally to protection? (23-24)4. Does the prosperity of a special interest group mean prosperity for the nation? (11-12)5. Does the prosperity of a protected nation mean prosperity for all nations? (23-24; 29)6. What do protectionists claim the tariff does for labor? (19)7. What is the attitude of opponents of protection toward the welfare of labor? (20)8. What is implied about labor when protection for it is advocated? (21)9. Where in modern times has the principle of free trade been given its best trial? (15-16) | <p>The levying of duties or taxes upon imported commodities for the purpose of protecting from foreign competition the home producers of such commodities.</p> <p>That protection secures more domestic prosperity and higher wages than would be possible with free trade.</p> <p>Not unless it can be shown that there was no other cause for the growth of the country.</p> <p>No. Special interest groups seek to benefit themselves usually at the expense of the rest of the nation.</p> <p>No.</p> <p>That it shields labor from competition and thus raises wages.</p> <p>They profess no interest in the well-being of labor. They want wages to be determined by supply and demand, without inquiring whether there is any injustice to labor.</p> <p>That labor is inferior and dependent.</p> <p>In the United States. The Federal Constitution prohibits tariffs between states.</p> |
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Implications of Protection

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| <ol style="list-style-type: none">10. If the protective theory is valid, must it not be capable of universal application? (28-29)11. If the protective theory is valid, should it not be extended to include states, counties, cities, neighborhoods and even families? (30) | <p>Yes. It would be absurd to assert that a theory of national prosperity applies to some countries and not to others.</p> <p>Yes. It would simply be extending protection to its logical conclusion.</p> |
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| 12. What does the protective theory imply about international relations? (31) | It implies an opposition of national interests; hence it militates against international cooperation and makes nations hostile toward one another. |
| 13. How do the citizens of all countries react to the paying of customs? (32-34) | They seek to avoid it by all possible means, including bribery, perjury and smuggling. |
| 14. Why do they react in this way? (34-35) | Because their moral perceptions find nothing wrong with carrying goods across an imaginary border. |
| 15. What is the aim of protection (36) | To prevent bringing into a country valuable things, in order to compel the making of such things in that country. |
| 16. What kind of international trade would protectionists permit? (40-43) | The free importation of commodities that cannot be produced at home. |
| <u>The Nature of Trade</u> | |
| 17. Does a nation force its goods and services upon another when it exports them? (46) | No. Trade is not invasion. There cannot be a trade unless the parties to it agree. |
| 18. What is the difference between a blockade and a tariff? (47) | In wartime, blockading squadrons are a means whereby nations seek to prevent their enemies from trading. In peacetime, protective tariffs are a means whereby nations attempt to prevent their own people from trading. |
| 19. Why do we want to trade? (50-51;55) | To satisfy our desires with the least effort. |
| 20. Where do we find wealth first accumulating and civilization beginning? (52) | Where trade can best be carried on; cities arise next to harbors, rivers and highways. |
| 21. How does the diversity of nature impel men to trade? (52-53) (Also see Supplement, Part 2) | Nature's products are so distributed as to impel men to trade in order to more fully satisfy their desires. |
| 22. What are the advantages of developing different skills and industries in different countries? (57-58) | It brings about increased efficiency due to specialization. |
| 23. How does trade between nations stimulate production? (58-59) | It enables each nation to produce that for which it is best equipped. |

SUPPLEMENT - LESSON II

Part 1 - DEFINITIONS

TRADE - The exchange of commodities for commodities. International trade is trade between parties of different countries. Trade may be carried on directly, called "barter"; or indirectly, through the use of money; but the trade is not completed until the money is again exchanged for commodities. Ultimately, all trade is barter. Trade has been called "a two-way street." It is a voluntary, freely-entered contract in which both parties benefit. Thus trade is also "a two-way profit." Each trading party values more what he is receiving than what he is giving up.

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

IMPORT - Any item of wealth brought into a country, usually for sale.

EXPORT - Any item of wealth sent out of a country, usually for sale abroad.

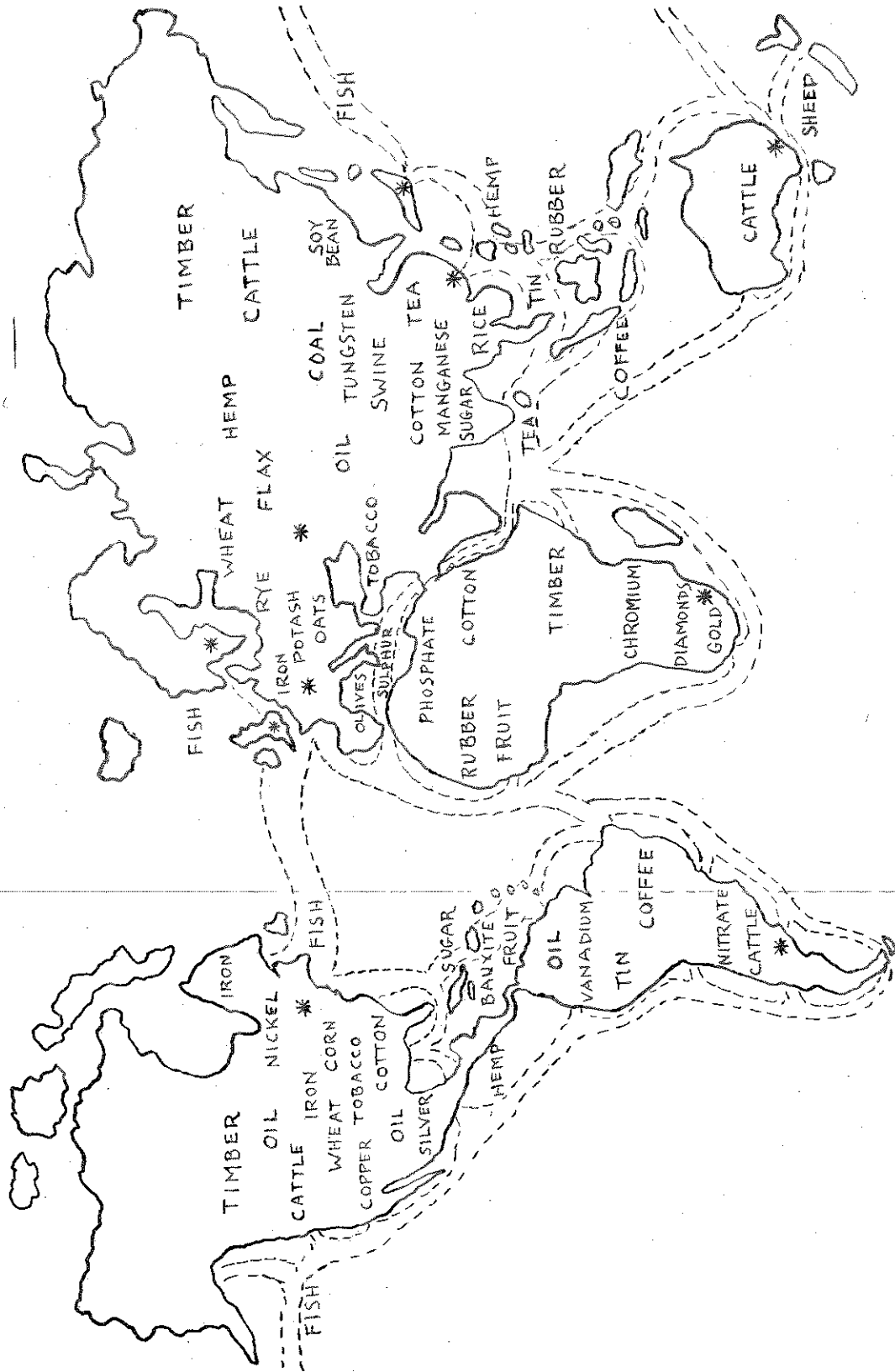
BALANCE OF TRADE - The ratio of exports to imports. A "favorable balance of trade" is said to occur when the value of a nation's exports exceeds that of its imports, so that other nations owe it money or gold. An "unfavorable balance of trade" is said to occur when a nation imports more in value than it exports and thus owes money or gold to other nations. (These are the commonly used meanings, not those of fundamental economics.)

BALANCE OF PAYMENTS - The amount in gold or money owed by a nation to another nation (or to all other nations) when its imports exceed its exports.

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

TAX A compulsory contribution levied upon persons, property or business, for the support of government. Direct tax is one paid directly to the government by the party or property-owner on whom it is levied. Indirect tax is one which the party on whom it is levied passes on to another party, usually in the purchase price of the item taxed. Ad valorem tax is one based upon the value of the thing taxed.

SUPPLEMENT - LESSON II
Part 2 - DISTRIBUTION OF THE WORLD'S RESOURCES



* - Principal manufacturing centers
Broken lines represent principal sea routes

LESSON IIIReading Assignment: Protection or Free Trade, Chaps. VII - XIIExchange and Tariffs

1. Is the exchange of goods a part of their production? Explain. (61-63)

Yes. Production is completed only when goods reach the ultimate consumer. Exchange is part of the process of bringing goods to the ultimate consumer.
2. What part in production does the "middleman" play (64-66)

He makes goods available when and where they are wanted. He also acts as a stabilizer of supply and demand in the market.
3. How does the middleman enable us to have greater economy in the production of wealth? (66-67)

He stores goods and enables us to buy them in small quantities at our convenience. The cost to us of obtaining and storing such goods otherwise would be prohibitive.
4. What was the original purpose of tariffs? (69)

To raise revenue. The idea of using them for protection came later.
5. What is the difference between a tariff for revenue and a protective tariff? (69-70;80)

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

Direct and Indirect Taxes

6. Define an indirect tax and give examples of such taxes. (70-73) (Also see Supplement to Lesson II)

An indirect tax is one which is passed on by the agent on whom it is levied, to the purchaser. Examples: sales taxes, excise taxes, tariffs, transfer taxes.
7. Define a direct tax and give examples of such taxes. (70-73) (Also see Supplement to Lesson II)

A direct tax is one which is paid directly to the government by the party on whom it is levied. Examples: income tax, land value tax, inheritance tax, poll tax.
8. What are the advantages and disadvantages of indirect taxation? (70-79)

Advantages: Gives largest revenues with least objections; easy to levy.
Disadvantages: Costly to collect; bears unequally; discourages small business, thus fostering monopoly; lends itself to evasion and corruption.
9. On what class of people does indirect taxation bear most heavily? (71-72)

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

10. Why do governments prefer to impose heavier taxes on cheap rather than costly articles? (72)

Cheap articles afford a wider base for large revenues. Taxes imposed upon them cannot be so easily evaded as those on costlier articles.

11. How does indirect taxation affect small business? (75-76)

It increases costs, thus discouraging small business.

Domestic Industries

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

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

13. Compare the bounty (subsidy) system with the protective tariff. (82-83)

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

15. How do the advocates of protection claim their tariffs will encourage home industry? (87-89)

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

16. What methods are used to get tariff acts passed by legislatures? (91-93)

Bribery, log-rolling, lobbying and other high-pressure techniques.

17. How can we determine what industries are desirable in any community? (96-97)

By their ability to survive in a free market.

18. What are some of the effects of protecting "infant industries"?

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

Exports and Imports

19. What would be the effect of keeping home markets for home producers? (103-106)

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

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

No more than an individual profits when he refuses to trade with other individuals, thus denying himself the advantages of the division of labor.

21. What is the common meaning of:
a) favorable balance of trade?
b) unfavorable balance of trade?
(112)

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

23. How are exports and imports corrective? (116)

24. When is international trade profitable to all countries engaged in it?
(116)

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

- a) an excess of the balance of exports over imports.
b) an excess of the value of imports over exports.

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

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

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

Interest on bonds and other obligations; rent for American land owned abroad; property passing by will or inheritance to people abroad; etc.

(Some time toward the conclusion of this lesson may be spent on discussion of the Common Market, etc. See Supplement.)

SUPPLEMENT - LESSON IIIFREE TRADING AREAS AND THE COMMON MARKET

As noted in Protection or Free Trade (pages 15-16); the principle of free trade was given "the greatest extension it has had in modern times" in the United States, as the Federal Constitution prohibits tariffs between the states. Prior to the adoption of the Constitution, there had been tariffs between the states.

In the 19th century, Great Britain adopted a free trade policy after protectionism had proven a failure. This "free trade" was incomplete and inconsistent (page 14), but even so it led to a great period of industrial expansion. But the policy was abandoned in the 20th century, with the increase of economic difficulties, although "preferential trade agreements" were made whereby trade between Britain and the Commonwealth countries was subjected to lower tariffs and trade barriers than trade with other countries.

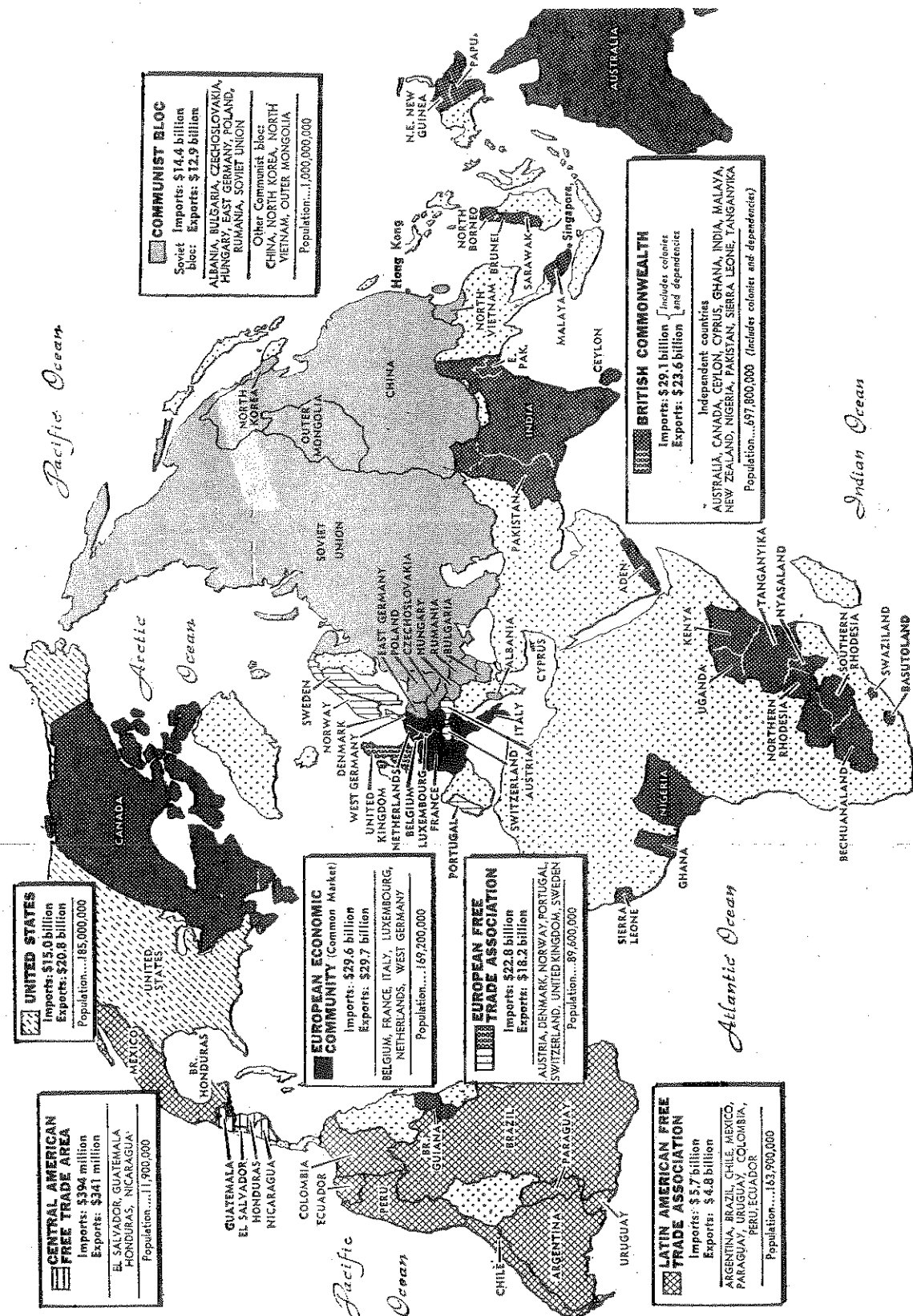
The European Economic Community (E. E. C.) was established in 1957 by the Treaty of Rome, consisting of six European countries: France, West Germany, Italy, Belgium, Netherlands and Luxembourg. The purpose was to form a larger and freer European trading area, which became known as the Common Market. Tariffs between the member countries were to be progressively reduced until finally abolished. A common tariff wall, however, was to remain against the outside world. There are also political involvements, and in fact the underlying goal of the E. E. C. is the creation of a potent political force, a "United States of Europe," that could be a power equal to the U. S. A. and the U. S. S. R. The E. E. C. recognized the need for beginning with economic cooperation.

The result has been a free trading area comparable to the U. S. in population and industrial capacity, though smaller in area. The countries involved have achieved impressive economic development since the Common Market was established. Most notable has been the progress made by France and Italy. West Germany already had a relatively free market economy and experienced a considerable economic development before the Common Market. But France had had a highly protectionist economy, and the Common Market caused a lowering of many of her outside tariffs, as well as opening up trade with the other Common Market countries. The result has been a great increase of her foreign trade and expanding industry. Italy has doubled her annual production over what it was before the Common Market.

Shortly after the formation of the Common Market, seven other countries formed another free trading area, the European Free Trade Association (E. F. T. A.), consisting of Britain, Norway, Sweden, Denmark, Switzerland, Austria and Portugal. Britain and other E. F. T. A. members have applied for membership in the E. E. C., and other countries are seeking associate membership.

There are other trading areas, for instance, a Latin American Common Market. The Communist block probably constitutes the largest trading unit in the world, consisting of the U. S. S. R., China and satellite countries, with a population of one billion. But this cannot very well be called a "free trading area", as trade is completely subject to government control. Nor is the economic performance of these countries very impressive, what with periodic famines, shortages and rationing.

The increase of interest in free trading areas, and the apprehension with which most other countries, including the U. S., regard competition from the European Common Market, indicate that the benefits of free trade are recognized. But even though free trade has thus proven itself, the fallacies of protectionism linger on, even within the Common Market, and most countries are still very reluctant to make the bold leap forward to full free trade.



From the New York Times
Jan. 9, 1962

WORLD TRADE, 1961

LESSON IVReading Assignment: Protection or Free Trade. Chaps. XIII - XVIIIThe Function of Money

1. How does the idea arise that a nation loses from importing goods and gains from its exportation? (123-124)
2. What is the function of money? (125-127)
3. As civilization advances, what supercedes the use of gold and silver in international trade? (125-257)
4. How did the habit of thinking of gold and silver as the only real wealth arise? (127)
5. How does this idea help support the protective theory? (128)
6. What happens to the value of precious metals when their supply is artificially increased in any one country? (129-130)
7. Compare sales and purchases of a merchant with exports of a nation. (131-132)
8. Is money used in international trade to settle imbalances? (133)

Protection and Profits

9. What belief induces workingmen to support protection? (135)
10. Do countries impose tariffs only on the imports from low-wage countries? (136)

It arises from personifying nations. Exports are regarded as sales and imports are regarded as purchases. The more the sales, and the less the purchases, the better the business.

It serves as a medium of exchange, thus facilitating the trading of commodities.

Instruments of credit: bills of exchange, letters of credit, notes, drafts, credit transfers, etc.

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

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

It lowers their value as compared with other commodities. To avoid this effect, nations prevent the free flow of gold by hoarding their supply in vaults.

Sales can be likened to imports, and purchases to exports. Imports are analogous to the money received by a merchant when he makes a sale. Exports are analogous to the money paid out when he makes a purchase. (Ordinarily, people erroneously equate sales with exports and purchases with imports, but the reverse is true.)

No. What each nation imports is paid for in the commodities which it exports.

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

On the contrary, tariffs are mostly imposed on imports from other high-wage countries.

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| <p>11. Does low-priced labor necessarily mean low cost of production? (138)</p> <p>12. In which countries do we find the cheapest cost of production? (138)</p> <p>13. Suppose one country produced all things better than another country, would it be mutually profitable for them to trade with one another? Explain. (145-147) (Also see Supplement)</p> <p>14. Can a country benefit from free trade without waiting for other countries to adopt the same policy? (149-150)</p> <p>15. Is industrial development the result or cause of the growth of population and wealth? (150-160)</p> <p>16. What is the effect of legislative encouragement or restriction of any one industry on the production of wealth? (163-164)</p> <p>17. What is the real cost of protective duties to the people at large? (167)</p> | <p>No. As a rule, low-priced labor means inefficient labor, and therefore, high cost of production.</p> <p>In those countries where wages are highest, and consequently labor most efficient.</p> <p>The country of greater advantages would import from the country of fewer advantages those products between which the difference of advantage was least, and would export in return those products between which the difference was greatest. By this exchange both peoples would gain.</p> <p>Yes. A country that adopted free trade would simply be allowing its citizens the freedom to trade advantageously. They would thus benefit.</p> <p>The result. Simpler industries come first, and with the progress of society, form a basis for more advanced industries.</p> <p>To divert labor and capital from industries in which the return is greater, to others in which it must be less, and thus reduce the aggregate production of wealth.</p> <p>(1) The tax upon imported goods, plus the profits upon the tax, plus the attendant corruption.</p> <p>(2) The higher price paid for products of the protected home industry.</p> |
| <p>18. Does protection succeed in increasing the profits of those industries which it is designed to encourage? (166-169)</p> <p>19. Why cannot any business open to domestic competition gain a permanent advantage from protective tariffs? (170-72)</p> <p>20. In which industries do protective tariffs result in greater profits? Give examples. (171)</p> <p>21. What is the most fundamental monopoly?</p> | <p>No. A tariff, by raising the price of a protected product, results in a lower demand for it, thus lowering the profits of the protected industry.</p> <p>Competition forces profits to a common level.</p> <p>In those that enjoy monopoly privileges. Examples: oil, meat-packing, watch-making, lumber, chemicals.</p> <p>The land monopoly.</p> |

22. Do the larger profits resulting from protection in monopolistic industries go to the producers? (174-77)

No. They go to the owners of land from whom the producers must purchase their materials.

23. How has protection retarded production? (183)

Protection increases the price of products thus retarding production. These increased prices have also hindered other nations from buying American products.

24. What industries suffer most from the curtailment of international trade by tariffs? Give examples. (185-94)

Those which are directly dependent upon international trade. Examples: ship-building and shipping industries, import-export businesses, air freight.

SUPPLEMENT - LESSON IV

THE ISLAND AND THE CONTINENT

Henry George says (Protection or Free Trade, pages 145-146): "...Let us suppose two countries, one of which has advantages superior to the other for all the productions of which both are capable... The people of the country of greater advantages would import from the country of less advantages those products as to which the difference of advantage between the two countries was least, and would export in return those products as to which the difference was greatest. By this exchange both peoples would gain."

The following charts and explanation illustrate this point. They are taken from The Philosophy of Freedom by Gaston Haxo. (Reproduced by permission of the author.)

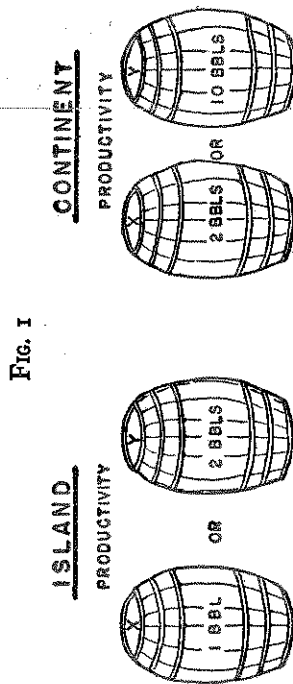


Fig. 1. On the island a man will produce in a given time one barrel of X or two barrels of Y, while on the continent the same amount of labor will produce in the same time two barrels of X or ten barrels of Y. Therefore, both products are cheaper on the continent than on the island.

At first thought it might appear that the continentals cannot possibly profit by any importation from the island and that if there is to be any trading it must be all one way. But unfortunately for this idea there is no such thing as "one-way" trading. According to the protectionist theory, the islanders will need a protective tariff, for unless they have one the island will be flooded with the cheap goods of the continent; their home industries will be condemned to idleness, and their laborers will be out of work. Such notions, however, spring from a misconception of the true nature of "trading," which is an exchange of products. There can be no consumption without production; neither can there be buying

without selling, and nations cannot export if they do not import, and vice versa.

Exchange is not determined by the absolute cost of production but by the relative cost. It will be noticed that the labor cost of X in the two countries is in the ratio of two for the island to one for the continent, while the labor cost of Y is ten to two or five to one. Hence it will pay the islanders to supply X to the continentals in exchange for Y, and such trading will benefit both.

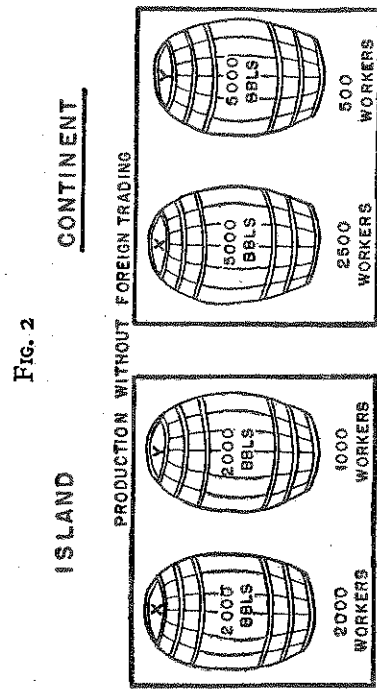


Fig. 2 represents production of X and Y in the two countries with 3000 workers employed. No foreign trading is contemplated. Productivity of labor as per Fig. 1.

Fig. 3

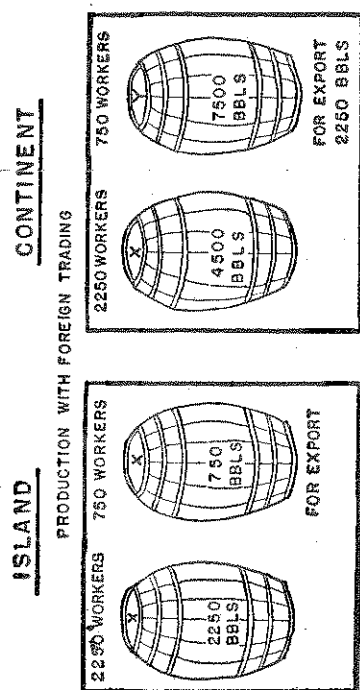


Fig. 3 represents the application of the labor of 3000 workers in each country with foreign trading in mind. On the island no labor is applied to the production of Y; instead, 250 workers are added to those producing X for home consumption, and 750 workers produce X for export. On the continent 250 workers are shifted from X production to Y production, 225 of whom produce for export (cf. Fig. 2 and Fig. 3).

Fig. 4

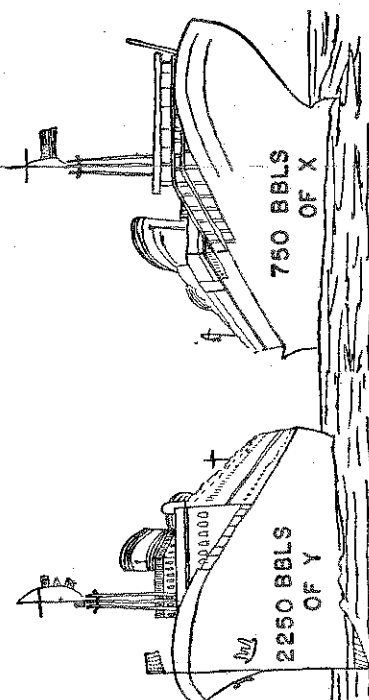


Fig. 4 The trading takes place. The island ships 750 barrels of X to the continent, and in exchange the continent ships 2250 barrels of Y to the island.

Fig. 5

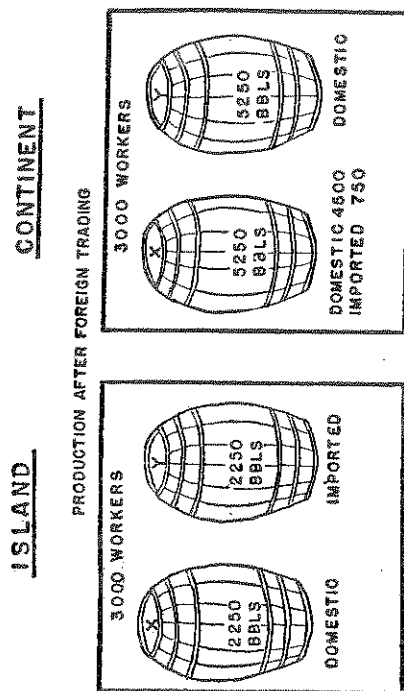


Fig. 5 represents the effect of the trading. Each country has employed the same 3000 workers, but instead of making the mistake of producing everything "here at home," they did the sensible thing and produced more of the most profitable and less of the least profitable and traded their surplus. It may seem strange to those who have been misled by the fallacious propaganda of protective-tariff advocates that trading between two countries, one of which produced everything cheaper, could be profitable to both countries. Both the islanders and the continentals have 250 barrels of X and 250 barrels of Y more than they would have had with the same amount of labor, had there been no trading (cf. Fig. 2 and Fig. 5).

LESSON V

Reading Assignment: Protection or Free Trade, Chaps. XIX - XXIVProtection and Wages

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| <p>1. What do protectionists claim is the effect of protection on wages? (195)
(Also see Supplement, Part 1)</p> <p>2. a) What is the effect of protection on prices?
b) What is the effect of the resulting prices on wages? (197-199)</p> <p>3. Are wages determined by competition in the goods market? (199-200)</p> <p>4. Is the aim of protection to lessen competition in the labor market or in the goods market? (204)</p> <p>5. Do protected industries necessarily share their increased profits with their workers? (207-9)</p> <p>6. How can wages be raised briefly and in a small way by tariffs? (209-210)</p> | <p>That protection prevents wages from falling to the lower levels of other countries.</p> <p>a) To raise them.
b) To reduce real wages. A tariff will increase the amount of labor for which the protected commodity will exchange. Hence it reduces the price of labor to the extent that it increases the price of commodity.</p> <p>No. They are determined by competition in the labor market.</p> <p>In the goods market. Employers in protected industries, as well as in others, buy labor as cheaply as they can.</p> <p>No. Only lessened competition in the labor market will increase wages.</p> <p>When a new tariff increases the demand for a certain domestic product, there is a sudden increase in the demand for a certain kind of skilled labor, and wages will rise. The attraction of more laborers by higher wages will soon reduce them.</p> |
| <p>7. To raise the general level of wages, at what level must we begin? (211-213)</p> <p>8. Can a tariff on agricultural products raise wages? Explain. (213)</p> <p>9. Compare wages in protected industries with wages in unprotected industries. (215-216)</p> <p>10. Would it be unjust to abolish protection all at once? (217)</p> | <p>At the level prevailing in those occupations which require the least skill. These are the ones in which men apply their labor directly to nature.</p> <p>No. Such a tariff can only raise the rent of land, as it reduces competition among landowners.</p> <p>Wages are no higher in protected than unprotected industries.</p> <p>No. No one can acquire a vested right in a wrong; no one can claim property in a privilege.</p> |

Free Trade and Wages

11. What has been shown so far, regarding
 a) the tendency of free trade?
 b) the tendency of protection? (226)

- a) The tendency of free trade is to increase the production of wealth, thus permitting an increase in wages.
 b) The tendency of protection is to decrease the production of wealth and to foster monopolies.

12. Does an increase in wealth necessarily mean an increase in wages? (227)

Not under conditions in which laborers are forced by competition to offer their services for a mere living.

13. Why is the free trade theory inadequate? (228)

It tends to answer protectionist arguments exclusively from the point of view of the theory, and it is weak in explaining specific facts.

14. Would free trade increase wages permanently? Why? (230)

Free trade would probably increase wages, but only temporarily. In this respect, it would be like all other inventions and discoveries that have increased wealth without increasing wages in the long run.

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

It is that in spite of the enormous increase of productive power, it is yet so hard for the mere laborer to get a living.

16. Give two reasons why inequality in the distribution of wealth tends to lessen the production of wealth. (241)

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

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

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

18. Does protection make work? (244)

It makes unnecessary work, as breaking a window makes work for a glazier. It lessens the result which a given amount of exertion can secure.

19. Is work a desirable thing in itself? (246-247)

No. Men work to benefit from the results of work.

20. What advantage has the seller of commodities over the seller of labor? (248)

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

21. Where the worker cannot employ himself, what is his attitude toward the employer? (247-249)
22. What has been the effect of labor-saving inventions on the condition of labor? (253-257)
23. What does George illustrate in his Robinson Crusoe story? (258-263)

He regards the employer as a benefactor.

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

That when one man owns the land on which others must live, he has the power to exploit them.

(Teacher: Have your students discuss different aspects of this story, including the attitudes of Crusoe and Friday toward protection and free trade.)

SUPPLEMENT - LESSON VPart 1 - PROTECTION, FREE TRADE AND WAGES

Henry George points out that protection is not needed to protect domestic wages from the threat of "cheap foreign labor." He shows that poorly paid labor is not efficient labor. This can be seen with present-day examples.

A refrigerator made in Japan, where wages are much lower than in the U.S. sells for nearly twice the price of a comparable American-made model. Eric Johnston, in the New York Times of March 11, 1962, reported: "A study some time ago showed that when the average Japanese worker was earning 22 cents an hour, his American counterpart was receiving \$1.95 an hour. But the Japanese worker produced 30 cents' worth of merchandise an hour, while the American produced \$3.19 worth an hour." As wages are rising in Japan, so is efficiency.

In the U.S., the most highly paid electrical workers are those of the Lincoln Electric Co., which operates on the incentive system. This company produces better arc-welding equipment for a lower price than its competitors, including General Electric. Bell & Howell, before World War II, sold its least expensive movie camera for \$50. Since the war, it has developed a better camera for \$48, while paying five times pre-war wages.

One of the few U.S. industries that remain unprotected is the agricultural equipment industry. Tractors and other farm machinery may be imported duty-free. There is, however, very little such importing, as American-made farm equipment is better and cheaper; and is, in fact exported to other countries. Wages in this unprotected industry are as high as in any other comparable industry.

While wages in protected industries are no higher, neither are wages in unprotected industries. Wages in both categories depend upon competition in the labor market. Protection does not raise wages, but neither does free trade - that is, permanently.

The first effect of free trade is to stimulate production and trade - and wages and interest rise temporarily. This expansion has the same effect as all other increases in productive power - it increases the demand for land and raises the price of land, ultimately at the expense of wages and interest. This was the experience that Great Britain had with free trade and it is the main reason why free trade was abandoned. British labor was not receiving the benefits of free trade, and so labor eventually demanded a program of social benefits, including protectionism.

The common Market countries are in the initial stages of industrial expansion. Wages have risen, but sooner or later the squeeze on wages will show itself. Even now, the lowest and poorest classes in the Common Market countries have not benefited.

HOURLY INDUSTRIAL WAGES IN SELECTED COUNTRIES

<u>Country</u>	<u>Earnings</u>	<u>Earnings plus fringe benefits</u>	
United States	\$2.34	\$2.84	
Canada	2.03	2.48	
Sweden	1.02	1.18	
United Kingdom	0.89	1.00	
Switzerland	0.80	0.92	
West Germany	0.63	0.82	
Belgium	0.57	0.77	Source:
France	0.44	0.82	Trade Relations
Italy	0.35	0.49	Council, 1962
Japan	0.28	0.33	

Part 2 - U. S. TRADE POLICY

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

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

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

In 1947, the General Agreement on Tariffs and Trade (GATT) was started, with 23 nations including the U.S. Instead of bilateral agreements, GATT introduced multilateral agreements whereby a number of nations negotiate with one another simultaneously.

With the Trade Expansion Act, introduced in 1962, the U.S. has shown growing interest in increasing trade with the rest of the world. It cannot be considered to be a free trade program, however. The President is given power to lower tariffs as conditions seem to warrant. Aid is promised to those industries "hurt" by the increased trade, and laborers whose jobs are threatened are to be retrained for other jobs. Meanwhile, tariffs and other restrictions continue to hamper trade, and in some cases tariffs have risen. With price supports to agriculture, cheaper foreign agricultural imports are prohibited. "Escape clauses" still enable high tariffs to be imposed. Exchange controls, quotas, etc., further restrict trade.

One of the chief purposes of the Trade Expansion Act is to improve the U.S. balance-of-payments positions - to increase its exports in order to prevent loss of gold reserves. The emphasis is on how much could be exported with a more liberalized trade policy. (For an examination of this position, see Chapters XII and XIII of Protection or Free Trade.)

The U.S., and most other countries, do recognize that in increased trade there is increased strength. The looming of the Communist world on the horizon is impelling the U.S. to build up the trade, and hence the strength, of the non-Communist world. But against this, there is widespread fear of the economic repercussions - "flooding the market with cheap goods," unemployment, closed industries, etc. Until this fear can be eradicated, there is not likely to be a genuine move for full free trade.

LESSON VIReading Assignment: Protection or Free Trade, Chaps. XXV - XXXTrue Free Trade

1. What is "the robber that takes all that is left"? (267)
2. Name some other ways in which wealth is diverted from producers to non-producers. (268)
3. What would be the net effect of abolishing all other monopolies except that of the private ownership of land? (268-269)
4. What is it that gives value to land? (272-273)
5. As inventions increase the power to produce wealth, what happens to a) the value of commodities? b) the value of the land? (273-274)
6. If labor had free access to land, could private ownership of capital compel men to work for starvation wages? (275-276)
7. To make free trade beneficial to labor, what basic reform must be adopted? (280)
8. What are the difficulties inherent in the equal division of land? (279 280)
9. Does common property in land conflict with a man's exclusive right to his produce? (280)
10. How can we secure equal rights to the use of land? (280-282)
11. What existing machinery can we employ to collect the rent of land for society? (282-283)

Private Property in land.

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

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

The growth of population, which enables landowners to appropriate part of the earnings of people for permission to work and live on the land.

- a) Tends to fall as cost of production falls.
- b) Tends to rise as increased production enables landowner to collect more rent.

No. Wherever land has been free, capital has had no power to exploit labor.

We must treat the elements of nature as common property.

Increasing population would compel frequent redivisions, resulting in inefficient production and insecurity of tenure.

No. On the contrary, where everyone has the right to his produce, no one can have any right of property in what is not his produce.

Leave landowners undisturbed in their present possession of land, on condition that they pay rent to the community for the exclusive privilege they enjoy.

The machinery of taxation; and particularly the assessment and collection of land value taxes.

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| <p>12. In addition to collecting the rent of land, what should be done with all other taxes now levied on labor and capital? (283-284)</p> <p>13. What are the major benefits to be derived from the public collection of rent? (283-286)</p> <p>14. What is the difference between a tax on land area and a tax on land values? (287-288)</p> <p>15. Can a tax on land values be shifted from the owner to the user of land? Explain. (288) (Also see Supplement, Lesson VIII, Fundamental Economics)</p> <p>16. What is true free trade? (286-290)</p> <p>17. Is a tax on land values really a tax? (288)</p> | <p>They should all be abolished.</p> <ol style="list-style-type: none"> 1. Labor and capital would keep what they now pay in taxes. 2. A large and growing fund would be available for public purposes without burdening labor or capital. 3. Land monopoly would be ended, thus throwing open land for use by labor and capital. <p>Taxes on land area apply equally to all land regardless of value, hence fall on production. Taxes on land values fall on land only proportionately to its value, hence do not fall on production.</p> <p>No. A tax on land values is really a tax on rent. Rent expresses the maximum that people are willing to pay for a given site. Thus, a tax on rent falls directly on the landowner.</p> <p>Free trade means free production and requires that labor and capital shall be freed from taxation, and shall have free access to land.</p> <p>It is a tax only in form, being really the public collection of rent.</p> |
| <p>Georgism and Socialism</p> | |
| <p>18. Why is George's reform a primary one? (300)</p> <p>19. What is the essential scheme of socialism? (304) (Also see Supplement, Part 2)</p> <p>20. With which ideas of socialism is George in agreement? (302-304)</p> <p>21. With which ideas of socialism is George in disagreement? (304-8)</p> | <p>Because it removes the primary cause of poverty, thus providing a basis for other needed reforms.</p> <p>That the state should carry on all production and exchange, and abolish competition.</p> <p>He agrees with socialism's recognition that as civilization advances, conditions arise which enlarge the domain of social action. He agrees with socialists in their desire to abolish war and preparations for war, and to regulate businesses which are in their nature monopolistic.</p> <p>George disagrees with socialism's proposal to abolish competition and to make the state the sole capitalist and employer.</p> |

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| <p>22. Compare George's attitude toward competition with the Socialist's. (307-8)</p> <p>23. What kind of government would be necessary before socialism could secure equality for all? (305-6)</p> <p>24. How would George's proposal affect government? (305-6)</p> <p>25. What are some practical ways to secure public recognition and adoption of George's proposal? (317-326)</p> | <p>George maintains that competition is a good thing in itself, and the best possible natural regulator of industry, given free conditions. Because of restricted opportunities, competition seems like an evil. Socialists maintain that competition is an evil by itself and should be abolished.</p> <p>A pure government of incorruptible men would be necessary before socialism could work.</p> <p>It would tend to purify government in two ways: by improving social conditions, and by simplifying the administration of government.</p> <p>People's moral sense must be aroused. Justice rather than self-interest should be the appeal. Opposition should not be feared, because interest cannot be aroused without it. Practical proposals should be put forth and public discussion of them promoted.</p> |
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SUPPLEMENT - LESSON VIPart 1 - CURRENT PROTECTIONIST AND FREE TRADE ARGUMENTS

Since Henry George wrote Protection or Free Trade (in 1886), the protectionist arguments have not changed substantially. Protectionists still contend that "cheap foreign goods dumped on the market" would close home industries and throw people out of work. They point to the threat of cheap labor in Japan, Hong Kong, and indeed most other countries, and demand that our industry and labor be protected from them.

Full free-trade arguments are as rare today as they were in George's day. Freer trade - a more "liberalized" trade policy - is what is most frequently advocated. The same spirit prevails today as during Grover Cleveland's campaign for the presidency, when his promoters chanted: "Don't, don't, don't be afraid; tariff reform is not free trade!"

One interesting change is that, whereas in George's day, industrialists were for the most part protectionists, the free-trade side has in recent years won over champions from industry, including Charles H. Percy, president of Bell & Howell; Henry Ford III, president of the Ford Motor Co.; Clarence Randall, former chairman of Inland Steel; and Eric Johnston, former president of the U.S. Chamber of Commerce. It is true that several industries have had an increasing number of overseas operations, thereby no doubt influencing their attitudes; but it is also true that several industrialists are arguing for free (or at least freer) trade because it is good business and because an open competitive market produces the best results.

The classical argument for free trade was primarily economic. Today's freer trade arguments are at least as much political as economic. Freer-trade advocates see foreign trade policy as an adjunct to foreign policy. The method advocated usually is not a lowering of tariffs across the board, but negotiations among governments for agreements on tariffs on certain kinds of goods. Freer-trade advocates say the U.S. must increase trade with the free world to counter the rising Communist bloc. Trade is seen as a way to give help to various countries in order to win them over to the U.S. Buying Japanese imports is advocated as a patriotic gesture, rather than as good business, as a way of luring Japan away from trading with Communist countries. Trade with Japan, however, is still regarded as a potential threat to American industry, and is promoted as a necessary sacrifice.

With many voices lifted in favor of freer trade, protectionists do not tend to be as outspoken as formerly. They do, however, still constitute a powerful lobby, and special interests get their tariffs quietly adopted rather than talk very much about it; whereas freer-traders talk a great deal but do not get as much legislation enacted. In the last few years, freer trade talk has increased, and so have tariffs (on cheese, watches, bicycles, wool, optical goods, glass and rugs, for example).

Protectionist views have been strengthened rather than weakened by large labor unions. The AFL-CIO pays lip service to a more liberal trade policy, but it still anxiously lest tariff reductions might pose an unemployment threat, or a threat to wages.

"The only journal in the world exclusively devoted to free trade," as it calls itself, is The Free Trader, published by the Free Trade Union and Cobden Club in London.

Part 2 - SOCIALISM AND COMMUNISM

"SOCIALISM" is a much used and misused term. There are various degrees and interpretations of Socialism. The word was coined around 1830 to indicate any doctrine that tries to rationally organize economic and social life.

In its more particular and most frequently used sense, Socialism is a system of social or governmental ownership and control of the means of production. Marxism (the theories of Karl Marx) teaches the coming of Socialism through class struggle and revolution. In its most throughgoing form, this doctrine is known as Communism, and is identified with Soviet Russia, international Communism and the Communist Party. (In a more general but less-used sense, Communism means the abolition of all private property and the holding of all goods in common.)

Whatever the degree of the Socialist doctrine - from extreme Communism to mild welfare-state - the basic assumption underlying it is that the market place, under conditions of pure laissez-faire competition, is incapable of securing to society an equitable distribution of wealth.

Socialists assert that if the market is left alone to decide who is to get how much of the world's goods, the result is a division of society into classes and the emergence of a struggle between the exploiting class and the enslaved working class. Competition, they say, becomes "cutthroat competition" and fosters trusts, cartels and monopolies. Instead of making earnings proportional to service rendered, the market place gives the highest rewards to the most unscrupulous exploiters.

In their analysis of the economic problem, Socialists lump land and capital under the single heading of "capital," and some Socialists even include money as capital. This confusion prevents them from seeing the possibility of a beneficial free market without the element of monopoly. They want the abolition of private enterprise and the profit motive and even the elimination of money, if possible.

Government planning and control of all industry is the key plank in the Socialist platform. This requires a strong centralized government with dictatorial powers and bureaucratic control. The result is curtailed production of consumer goods, shortages, black markets, bribery and corruption on a large scale. Freedom of job-choice, freedom of speech and press are greatly curtailed because of the necessity of a single plan. All of which is enforced by a strong police power.

One of the biggest failures in Communist countries is farm production. Farmers are extremely reluctant to produce more than they need for themselves when they are not given rewards commensurate with their production. By contrast, the farm produce of countries where farmers are relatively free to produce and sell, is much greater. The free-market economy has proven itself again and again to be superior to a planned socialistic economy.

The mistake of lumping land and capital together is what gives Communism both its strength and its weakness. Its strongest appeal is to the impoverished landless masses of the world who have been rackrented for ages by ruthless landlords. Its greatest weakness is in its inability to provide the incentive that is given by the free market to let the producer enjoy the benefits of what he produces.

Communism has not won over countries that are industrially advanced, as Marx predicted, as part of his economic interpretation of history. Instead, it has taken over industrially backward countries (Russia, China, Cuba), which had a serious land problem. The real answer to Socialism and Communism lies in the solution to the land question.

LESSON VIIPart II. SOCIAL PROBLEMS. Textbook of same title by Henry GeorgeReading Assignment: Social Problems, Chaps. I - VIIThe Individual and Society

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| <ol style="list-style-type: none">1. What faculty in man enables him to overcome difficulties imposed by nature in making a living? (2)2. How does this faculty express itself in our highly developed civilization? (3)3. Has human nature changed within historical times? (2 - 3)4. In which direction must we look for the betterment of mankind:
a) toward improvement of the species?
or
b) toward improvement of society?
(2 - 3)5. In what way does the division of labor in a civilized society affect man's economic independence? (4)6. Contrast the effect of a disaster upon a primitive society with one upon a civilized society. (3 - 4)7. To what may be attributed the growing unrest and bitterness of the masses of the world? (7)8. Has social science kept pace with natural science? (8)9. What is the duty of the citizen? (9) | <p>Intelligence. This enables man to adapt, to invent, to conquer nature.</p> <p>By cooperation (through trade and division of labor). This makes possible the manifold ways in which modern civilization administers to human desires.</p> <p>According to all the evidence, human nature has not changed within historical times. Man is still essentially the same being we recognize at the beginning of recorded history.</p> <p>Toward improvement of society. Man as he is today, possesses great potentials which can be utilized without changing his human nature. But these potentials require greater social development for their fuller expression.</p> <p>It makes man more dependent upon others. There is an enormous gain in productive power from division of labor, but the social organization becomes more interdependent.</p> <p>A primitive society can recover more rapidly than a civilized society. Also, a disaster a few miles away scarcely affects a primitive village, whereas a local disaster in modern civilization can have world-wide repercussions.</p> <p>Old social and political systems are not adapted to meet the strain of changing economic, industrial and political forces.</p> <p>No. Science has revolutionized industry and is still advancing; but war, greed, cunning and corruption still dominate our social, economic and political systems, as they did thousands of years ago.</p> <p>To exercise his intelligence in the solving of social problems. He must go beyond self-interest and seek justice.</p> |
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10. Is the idea of liberty acquired or instinctive? (12)

Instinctive. Primitive perceptions are of the equal rights of the citizen.

11. How does the growth of government tend to affect liberty? (12)

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

12. How do great aggregations of wealth corrupt government? (13 - 14)

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

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

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

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

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

The Past and the Present

15. What was the economic importance of the discovery of America? (22)

It furnished an outlet for the restless and oppressed people of Europe. The free land of America offered economic opportunities that were denied in Europe.

16. What has happened to the free land in America? (24)

The best of it is fenced in. It is almost impossible to find free land fit for habitation.

17. Discuss the possibilities of large-scale emigration from Europe and North America to
a) South America; b) Africa; c) Australia; d) Asia. (27-28) (Also see Supplement, Part 1)

There would be room for settlement in all these continents if their land policies were reformed. As in our own country, private ownership of natural resources restricts opportunities. Under present conditions, the possibilities of large-scale emigration are small.

18. How are social beliefs perpetuated? (31-33)

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

19. What two opposing tendencies have resulted from social progress? (34)

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

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| <p>20. Contrast modern working conditions with those existing before the advent of mass production methods. (34 - 37)</p> <p>21. Is it as easy to amass a large fortune now, as it was in the last century? (42 - 46)</p> <p>22. What has been the basis of most large fortunes? (51-56) (Also see Supplement, Part 2)</p> | <p>Under the old system of handicrafts, there was more independence, variety, human association and pride of accomplishment. Under modern mass production methods, working conditions are more monotonous and dehumanized, and the individual becomes a cog in a huge machine.</p> <p>No. While the country was growing rapidly and expanding westward, it was easier for shrewd men to seize and exploit monopolies and special privileges.</p> <p>Special privileges and monopolies, especially the monopoly of land (including natural resources).</p> |
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SUPPLEMENT - LESSON VIIPart 1 - POPULATION TRENDS

In Chapter III of Social Problems, Henry George discusses the large-scale emigration from Europe to America that was taking place at that time (the 1880's). The great Irish immigration was tapering off, the German immigration was at its height, and the Italian immigration had just begun. Shortly afterwards, immigration from Italy and Southern Europe reached its height, followed by a great immigration from Eastern Europe, particularly Jewish immigration from Poland and Russia.

The tide of immigration continued uninterruptedly until World War I, virtually unrestricted, with some exceptions. After World War I, immigration was drastically curtailed. Each nation was given a quota of immigrants who could enter the U.S. There were further restrictions: no illiterate persons were admitted; the immigrant had to be a person of means or show proof of support. This was to prevent immigrants from adding to the economic problems of the country through unemployment. Much vigor and color were sacrificed when the flow of immigration was shut off.

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

Within the United States, there has also been a changing pattern of migration. The westward trend noted by Henry George has continued until now California bids to be the most populous state in the union. There has also been a trend away from rural areas and increasing settlement in urban areas. This has been accompanied by a drift away from city centers to suburban areas. Puerto Ricans have moved in large numbers to New York and other cities, and Negroes have migrated from the South to Northern cities.

In other countries, immigration is also limited by government as it is in the U.S. There has been a continuing migration from Britain and Ireland to British Commonwealth countries, especially Canada and Australia. These countries have also opened their doors to other Europeans, especially since World War II, and they have migrated there in considerable numbers. Latin American countries have also been receiving immigrants from Europe.

As in all times and places, people still move from place to place when they think they can better their condition. A conspicuous example of this is the exodus of people from Communist countries. In spite of severe restrictions, thousands of people have found their way from East Germany to West Germany, and from Communist China to Hong Kong.

Newly independent nations of Asia and Africa have not yet attracted immigrants (with the exception of Israel). In some cases, Europeans of countries which were formerly colonies and are now independent, have left, though many stay on. Africans and Asians are not emigrating from their own countries in large numbers, but within these newly independent nations, migration takes place. The tendency there, too, is away from rural, primitive and undeveloped areas toward urban and industrial areas, some of which are developing rapidly.

World population has increased considerably since Henry George's day, and is now around three billion. The main question today is not so much where Europeans and Americans can go to settle and colonize, but how to accommodate and create opportunities for all the peoples of the One World in which we live.

Part 2 - THE GREAT AMERICAN FORTUNES

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

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

While not all great fortunes originated with land monopoly - many having started through trade and industry - they were perpetuated by taking advantage of monopoly, investing in land, etc. Many fortunes were dissipated by the failure to take this precaution.

Most large fortunes are of pre-World War I Vintage. Among the more recent fortunes are those of Henry Ford and J. Paul Getty. Ford's fortune rose rapidly as his mass-production methods succeeded; but the fortune has been augmented by investments in natural resources. Getty's fortune originated from an investment in 1000 acres of Oklahoma oil land by his father; it is now a world-wide empire, with branches in real estate and aircraft manufacturing.

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

QUOTATIONS

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

MARSHALL FIELD: "Buying real estate is not only the best way, the quickest way, but the only way to become wealthy."

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

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

LESSON VIIIReading Assignment: Social Problems, Chaps. VIII - XIIRights and Wrongs

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| 1. What teachings have contributed to the idea that poverty is inevitable? (72-75) | Economists have taught that poverty is the result of unalterable economic laws. Religions have taught that poverty is the natural lot of the masses. The popular belief is that hard work is necessary in order to make a living. |
| 2. How does a war give evidence of great unused productive power? (75-76) | In spite of the loss of manpower tied up in military service, there is still enough production of wealth to supply the needs of destructive warfare, as well as the needs of civilian consumption. |
| 3. What problem underlies our social and political maladjustments? (81) | The problem of the distribution of wealth. |
| 4. Why can we not accomplish a permanent equalization in the distribution of wealth by forcibly redistributing it? (82-83) | Because we would not be eliminating the underlying causes of the unjust inequalities. The tendencies to unequal distribution of wealth would soon reassert themselves. |
| 5. What is the just, or natural, distribution of wealth? (83) | It is that which gives wealth to the producer. Nature yields her riches only to labor. (The natural distribution of wealth is: Rent to land (the community) ; Wages to labor; Interest to capital.) |
| 6. What other ways are there of acquiring wealth besides working for it? (84) | Begging and stealing. |
| 7. Should we put any limit on acquisitions? (86-87) | No. However much a man can earn is rightfully his, as long as it does not involve the robbing of others. |
| 8. What is wrong with charity? (87) | Nothing is wrong with the charitable impulse. The wrong is that charity is needed on such a large scale in civilized society. |
| 9. What is meant by natural rights? (92-94) | Those rights which inhere in man and which are set forth in the American Declaration of Independence and the French Declaration of the Rights of Man. |
| 10. What economic rights are implicit in the "natural and unalienable right to life, liberty and the pursuit of happiness"? (95-100) | The right of every man to his labor and the full fruits of his labor; and the right to the use of land. |

11. Why do men emigrate from one country to another, from one city or state to another?
12. Compare the conditions of immigration to the U. S. A. in George's day with those of today. (105-116) (See also Supplement, Lesson VII)

"Over-production"

13. What is the difference between "absolute" over-production and "relative" over-production? (117-118)
14. Why is over-production, in the absolute sense, impossible? (117)
15. In what two ways can relative over-production be caused? (118-120)
16. What is the effect of a disproportionate increase in production of any one commodity on production generally? (119)
17. What is the effect of monopolistic curtailment of production in any one industry? (119)
18. What is the effect of tariffs, taxes and restrictions upon production? (122-123)
19. What is the greatest check to production? (124-126)
20. What is the effect of land speculation upon production? (127-128) (Also see Supplement.)

To better themselves.

In George's day, immigration to the U. S. A. was unrestricted. Some immigration was subsidized. There were no immigration requirements except health. Today, immigration is restricted to the quota system. Discrimination is shown with respect to nationality. And the immigrant must show proof of livelihood.

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

Because man's desires are unlimited.

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

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

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

They penalize producers, thus discouraging production.

The monopoly of land.

By holding land out of use, it prevents production from taking place. This leads to recurring periods of economic stagnation. (Some time may be devoted to the supplement, comparing George's theory of depressions with other theories.)

SUPPLEMENT - LESSON VIIIPart 1 - DEPRESSIONS

How does Henry George's theory of depressions stand comparison with the theories of modern economists? We can usefully refer to Handbook for Economic Students by Leo T. Little (Jordan & Sons Ltd., London, 1955), wherein is a chapter on the subject as follows:

“THEORIES OF TRADE CYCLE

1. Overproduction Theories: (a) Trade cycle decline due to periodical surplus production of goods. Causes of overproduction vary with theories (e.g., initial over-production in agriculture, due to climatic conditions). (b) Theories are unsatisfactory: fail to show why operation of supply and demand does not cause goods to be taken up.
2. Underconsumption Theories: (a) Stress failure of consumers to buy goods or "over-saving". Redistribution of income to poor would cause more consumption and eliminate trade cycle. (b) Theories are unsatisfactory: fail to show why traditional machinery of rate of interest does not prevent depression. Traditionally, if saving increased, rate of interest should fall and the savings should be spent on capital goods instead of consumption goods - thus no underconsumption.
3. Monetary Theories: (a) Boom due to over-expansion of money supply (which lowers rate of interest and stimulates production) - slump due to cessation of expansion, causing projects to be abandoned. (b) Different economists stress different factors within the theory (e.g., Hawtrey - expansion/decline in stocks, related to lower/higher interest payable by dealer; Hayek - relation of market rate of interest to true (equilibrium) rate: if lower, expansion; if higher, decline). -
4. Psychological Theories: (a) Entrepreneur's psychology the dominant factor. Optimism spreads and leads to expansion. Gives way to pessimism leading to contraction until something turns pessimism to optimism. (b) Difficulty in theories: do not explain change from one attitude to another and thus beginning of either movement.
5. Keynesian Theory: (a) Root cause: Divergence between planned savings and realized investment. In equilibrium those are equal. If planned saving exceeds planned investment, national income and employment fall and multiplier will exaggerate movement. In contrast, classical economists assumed that as saving increased, rate of interest fell sufficiently to cause expansion of investment. (b) But Keynes answered: (i) Increased saving not always accompanied by decline in rate of interest. (ii) Even if rate of interest did decline investment would not necessarily expand sufficiently. (iii) Recovery takes time: will not set in until something done to encourage investment and thereby consumption. Better to take measures early by correcting the excessive disposition to save or unwillingness to invest. ”

* * * * *

It will be noted that all theories excepting that of Keynes are regarded as unsatisfactory. (Henry George's theory is conspicuous by its absence.) Yet even here Keynes' theory bears a certain indirect relationship to that of George.

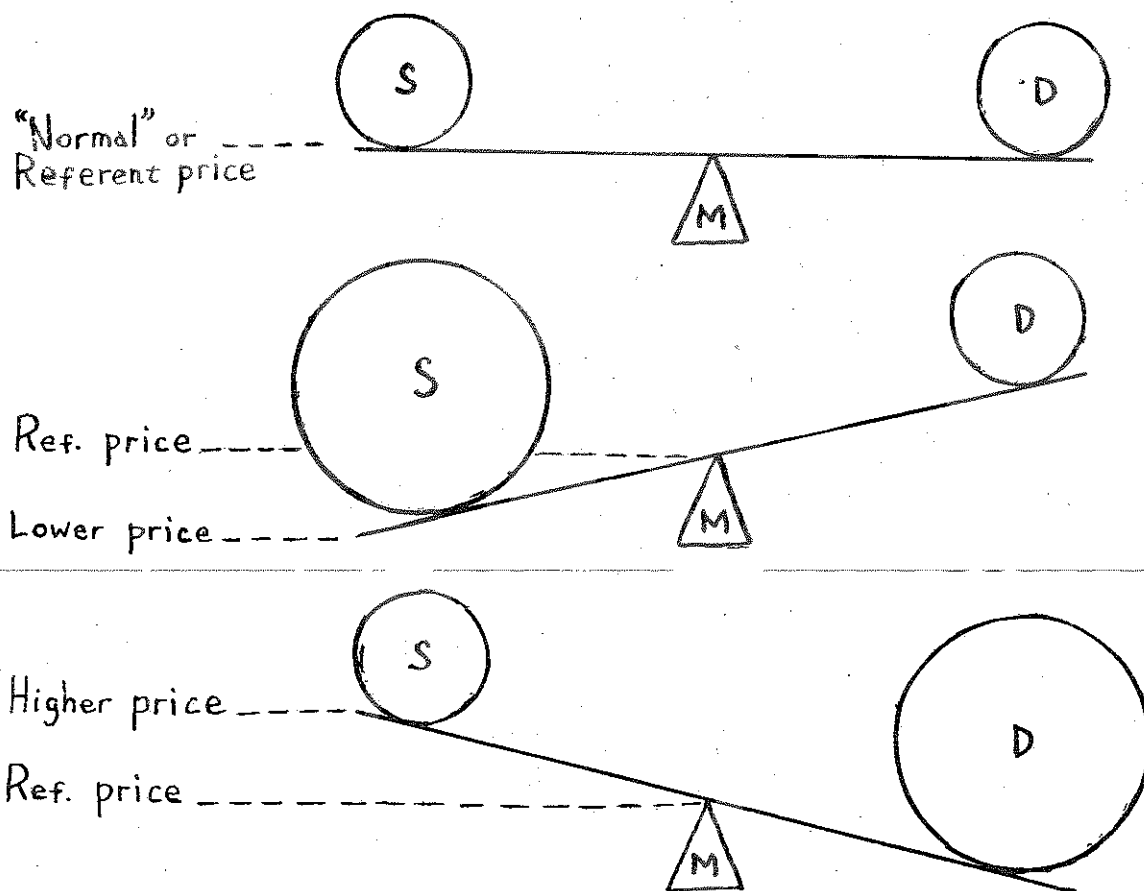
Henry George pointed to the effect of speculation in land (in anticipation of higher prices) as a direct cause of industrial depression in that it forced the rent of land beyond its economic level. That is to say, landowners were demanding future production in the present. Since you cannot get "120" out of "100" land, production would tend to slow down, many entrepreneurs not being able or willing to continue production on those terms. George's theory is well supported by the history of depressions in Chicago. (See One Hundred Years of Land Values in Chicago by Homer Hoyt.)

Keynes starts at the point where speculation in land is beginning to show its effects: "Recovery takes time: will not set in until something is done to encourage investment..." The measures taken to correct "the excessive disposition to save or unwillingness to invest" include the expansion of money supply (inflation of the currency). It will readily be seen that this is dealing with effects, not with causes.

In a way Keynes was right. His theory works - so do aspirins - for a while. But society needs a complete cure, not ineffective drugs which, as we have seen to our cost, bring so many other evils in their train.

- From Henry George School Magazine, London,
December 1960

Part 2 SUPPLY AND DEMAND



The fulcrum principle serves to illustrate the law of supply and demand. The fulcrum represents the market (M) which, if not interfered with, produces a normal or referent price level, a balance between supply (S) and demand (D). Price fluctuations are in step with the supplier's end of the scale, as he is the one who "sets" the price. In the event of an oversupply, the price goes down in order to stimulate demand. With a demand greater than the supply (and/or a delay in supply catching up with demand), prices go up.

- Raymond Perron

LESSON IXReading Assignment: Social Problems, Chaps. XIII - XVIIEmployment and Inventions

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| <p>1. Why is the competition of employers for labor not as great as the competition of laborers to find employment? (131-132, 138)</p> <p>2. Suppose man were freed from his dependence upon land, would there be an unemployment problem? Explain. (133-135)</p> <p>3. Must we all go to work directly on the land, in the extractive industries, in order to prevent unemployment? (139-140)</p> <p>4. What general conditions contribute to the popular idea that inventions cause unemployment? (139-140)</p> <p>5. How does a labor-saving invention in one industry increase the productive power of all labor? (140-142)</p> <p>6. To whom does the increased production due to labor-saving devices ultimately accrue under present conditions? (142-144)</p> | <p>Land being monopolized, the self-employment of labor is difficult, and so laborers must compete for jobs.</p> <p>No. All labor could then always employ itself without restriction.</p> <p>No. It is only necessary for land to be freely accessible for those who want to work on it.</p> <p>As productive power increases, people notice unemployment, unequal distribution of wealth and growth of monopolies. Not seeing the basic cause, they blame new inventions.</p> <p>By increasing the quantity of a particular commodity, its price is decreased, thus increasing purchasing power and stimulating the production of other commodities.</p> <p>To those enjoying a monopoly or privilege, especially the monopolists of land.</p> |
| <p>7. If all social services were furnished free to the public, who would ultimately benefit? (144-145)</p> <p>8. a) Under what conditions does chattel slavery arise?
b) Under what conditions does it cease? (149-151) (Also see Supplement, Part 1)</p> <p>9. Compare chattel slavery with the slavery that results from private property in land. (157-160)</p> | <p>Rents would increase, thus the landowners would ultimately benefit.</p> <p>a) Slavery arises where population is sparse; land is of little value and labor is dear.
b) It ceases when population increases; land becomes valuable and labor cheap.</p> <p>The chattel slave, being an investment, was cared for by his owner as valuable property. The slavery that results from private property in land is an impersonal thing. Unemployed laborers are not the responsibility of any owner.</p> |

Public Debts and Indirect Taxation

10. How do public debts and indirect taxation strengthen the land monopoly? (161-162)
11. Should the debts of one generation be binding on another generation? (162-163)
12. Are public debts a device for borrowing from future production? (162-163)
13. How do public debts foster corruption and war? (163-167)
14. Why are indirect taxes favored by special interests? (165-170)

The Functions of Government

15. What is the primary purpose of government? (171-172)
16. In what ways can government be simplified? (172-175)
17. What are the results of governmental attempts to legislate virtue? (173-174)
18. What does Henry George say government should do about business which are in their nature monopolies? (176-189)
19. Discuss governmental vs. private ownership and control of
 - a) money d) schools
 - b) railroads e) public utilities
 - c) post office f) mass communications
 (178-193) (Also see Supplement, Part 2)

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

No. This is in effect forcing people to pay for a debt they did not incur.

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

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

Because extra profits are made on these taxes when they are shifted to the consumer.

To secure equal rights for all men.

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

They encourage evasion and bring law into contempt; reduce the standard of wrong and right to a legal question; and encourage the rogue who can stay just within the law.

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

George proposes that all these functions be operated (or at least regulated) by government. Acceptance of this proposal, however, is not essential to acceptance of the basic teachings of George. The student may form his own conclusions.

SUPPLEMENT - LESSON IXPart 1 - VOLUNTARY AND INVOLUNTARY LABOR

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

George's point is supported by the book, Involuntary Labor Since the Abolition of Slavery by W. Kloosterboer (E. J. Brill, Leiden, Netherlands, 1960), in which a world-wide survey is made of compulsory labor in other forms than chattel slavery.

After slavery was abolished in the colonies held by European powers and in the United States, in the 19th century, some form of involuntary servitude continued in most cases. This often took the form of compulsory labor contracts and "debt bondage."

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

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

In the U.S. after abolition, the ex-slaves were unable to buy land, and the promise of "forty acres and a mule" never materialized. Thus voluntary labor took the place of compulsory labor. However, debt bondage still prevails where sharecropping is practiced. The landowners lend money to sharecroppers at such high rates of interest that they are required work for them in order to pay it off. As a rule, they have to renew their loans, and so the debt bondage becomes a perpetual condition.

Chattel slavery still prevails in some parts of the world - e. g., in the Arab world and in some other countries of Asia and Africa. These are places where a simple living can still be eked out of free land and so, without an abundant supply of labor for hire, slavery is resorted to.

In Communist countries, compulsory labor prevails on a large scale, for the entire system depends upon the State giving orders as to who should work where and at what. "Slavery" takes many forms! True abolition can come only when free men may apply themselves to free land.

Part 2 - THE FUNCTIONS OF GOVERNMENT

GOVERNMENT is that part of organized society which is concerned with the formulation, maintenance, interpretation and enforcement of man-made laws. These laws are binding on all citizens, including members of the government. Internally, government acts (or should act) to secure justice among men and to arbitrate disputes that arise out of the association of people in business and society. Externally, it acts to prevent and resist invasion, while seeking to maintain peace and cooperation with other nations. The main business of government is justice for all and special privilege for none.

If special privileges are granted, the full value of the privilege should be paid to the government. Thus, the private ownership of land should be contingent upon payment of rent to the government. Other special privileges are: public utilities, transportation franchises, and radio and television wavelengths.

Henry George thought that "businesses which are in their nature monopolies" should be governmentally owned and operated. In this category he placed public utilities and railroads, as well as the postoffice, public schools and the issuance of money. Many who agree with George on land value taxation do not agree with him on this point. They say that all such businesses should be left to private enterprise; they point to the inefficiency too often associated with governmental operations; and they warn against too much governmental power. Even the postoffice and public schools have been challenged. (Discussion of money is taken up in The Science of Political Economy)

Competition may be the best treatment. Public schools have benefited from criticism and competition from private schools. And, without challenging the existence of the postoffice, the public might benefit if a certain amount of private competition were permitted.

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

In mass communications, too, such as radio, TV and Telstar, exclusive use of a natural resource, i. e., wavelengths, is involved. Private operation might very well be permitted upon fulfillment of obligations for such monopoly.

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

At any rate, the first and most important job is to secure to every one the right to the use of land, to untax labor and industry, and to collect the rent of land for communal purposes. The nature of these other matters and what to do about them will then more clearly show themselves.

LESSON XReading Assignment: Social Problems, Chaps. XVIII - XXIIAbolition of Monopoly

1. What is the primary cause of political corruption, monopolies and other social maladjustments? (194-195)
2. Mention some other monopolies besides the land monopoly. (196-197)
3. If all monopolies other than land monopoly were abolished, what would be the effect on the distribution of wealth? (197-200)
4. Does Henry George claim that recognition of our equal right to the land is the solution to all social problems? (201)
5. How did the institution of private property in land become adopted? (204) (Also see Supplement, Part 1)
6. Give reasons why private property in land is unsound. (204-206)
7. What would be some of the benefits of taking rent for public purposes? (208-215)
8. Why is rent the natural source of revenue for the needs of society? (214-128)

Rural and Urban Problems

9. What is the main source of income for the small farmer? (220-221)

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

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

Landowners would reap the gain.

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

Most people of the world have not believed in private property in land. The idea was first developed among the Romans. In England, property in land was not fully recognized until 1688. America simply followed England in this respect.

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

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

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

His labor and capital.

10. In what ways does indirect taxation affect the working farmer? (222-224)
11. Give reasons why the working farmer would gain if taxation were confined to the value of land. (222-224)
12. What would owners of farms lose by land value taxation? (224)
13. What conditions are eliminating the small farmer? (227-229) (Also see Supplement, Part 2)
14. Why is the private ownership of land so highly esteemed? (230)
15. How do mortgages facilitate the transition from small to large farms? (232)
16. What conditions are necessary for the small farmer to profitably operate his own farm? (232-233)
17. What are the disadvantages of
 - a) extreme concentration of population?
 - b) extreme sparseness of population?(234-238)
18. What are the basic causes of the unbalanced distribution of population? (238)
19. How would the public collection of rent affect the distribution of population? (238-239)

It increases the cost of the products he must buy. It usually falls more heavily on the farmer than on the city-dweller.

The burden of taxation on the working farmer would be lightened, as his land is less valuable than large farms and plantations, urban lands, etc. Also, the land of the working farmer is generally less valuable than the improvements he has put upon it.

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

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

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

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

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

- a) Crowded, unnatural, unwholesome living conditions.
- b) Cultural impoverishment, isolation, monotony.

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

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

20. In order to secure fundamental social reform,

- a) what obstacles must be overcome?
- b) what positive steps must be taken? (241-245)

- a) Apathy, ignorance, prejudice and short-sighted selfishness must be overcome.
- b) Right ideas must be formed, followed by the propagation of these ideas. "Social reform is not to be secured by noise and shouting; by complaints and denunciation; by the formations of parties or the making of revolutions; but by the awakening of thought and the progress of ideas. Until there be correct thought, there cannot be right action; and when there is correct thought, right action will follow."

SUPPLEMENT - LESSON XPart 1 - PROPERTY IN LAND IN ENGLAND AND AMERICA

The feudal system in England and Europe, although based on a self-contained economy and a class structure, still offered rights in land to the lowest classes. This included common grazing lands to which all had rights.

Enclosure of the common lands in England began in the 16th century, and there were wholesale evictions of peasants from their homesteads so that powerful landlords could have profitable sheep farms.

After the English Civil War, the "Glorious Revolution" of 1688 was actually a victory for landlordism. Feudal tenure, and the obligations of landlords to the Crown, were abolished. A land tax had been proposed as a substitute for the old feudal dues, but the landlord-controlled Parliament decreed instead excise duties on beverages. Thus began the trend of shifting the burden of taxation from land onto the general populace.

During the 18th century, the enclosure of common lands continued, and 14 million acres were reduced to private ownership. Rents increased. The number of landless grew and they had to become laborers for hire. The Industrial Revolution intensified these difficulties and Poor Relief acts were passed. The reply of the laborers was: "Give us back our commons and you can keep your poor relief."

Efforts were made by liberal governments to curb the power of the landlords. In the early 20th century, land-value tax measures were introduced but defeated. Instead, ill-advised socialistic schemes were adopted. But the land of England is still owned by a small minority of landlords who still collect enormous rents.

* * * * *

The discovery of America served as an outlet for the land-hungry people of Europe. Much of the land was granted to favorites of kings, and patricians sought to keep control of settlers through the Old World system of landlordism. But there was such an expanse of free land that the system did not work. Free land meant independent settlers. An economic revolution had already taken place before the political revolution of 1776.

The Land Ordinance of 1785 and the Act of 1796 made provision for the private purchase of public land. But the terms could not be met by poor settlers, so the terms were progressively reduced. But speculators bought up large tracts and sold them to settlers at a great profit. The feverish speculation led to "booms and busts."

But there was still so much land left that the country rapidly recovered and people continued westward. The pre-emption of land by large private interests was accelerated when the federal government gave huge land grants to the railroads.

The Homestead Act of 1862 granted plots of the remaining public lands to settlers, in order to encourage more family farms. By this time, however, most of the good agricultural lands had been taken up, and the homesteaders had a hard time making a living. Even at that, 9 out of 10 acres of homestead land fell into the hands of speculators.

By 1890 the frontier had disappeared. Thenceforth the trend to concentration of landownership has increased, with concomitant results - more severe economic crises, greater union agitation for higher wages, greater demand for welfare legislation. As in England, the landowners have attained a good amount of success in shifting the tax burden from land onto the general populace.

Part 2 - THE FARM PROBLEM

The trend noted by Henry George in Chapter XX of Social Problems toward the decrease in the number of small farms and the concentration of farms among large owners, has continued since then.

This concentration has been accelerated by the closing of the frontier, advances in mechanized farming, and increasing migration from rural to urban areas. As of 1960, 70% of the population of the U. S. lived in urban areas and 30% in rural areas. Only 12% of the working population worked at agriculture.

Farm acreage has not declined markedly. But the number of farms has declined sharply and has fallen in 25 years from nearly 7 million to 3-1/2 million. Small farms are consolidating into fewer large farms, and the average farm has doubled in size.

Many of the family-sized farms were owned by late-comers who tried to convert marginal land into farms. After a few generations, many of these have been given up. 1,600,000 family farms provide a net family income of \$2500 a year. The younger generation does not see a future in struggling on the farm, and many are drifting into the cities.

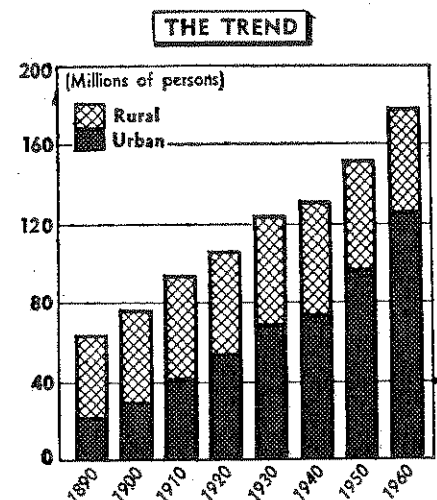
Use of large farm machinery has required bigger farms. Land prices have risen sharply, making it still more difficult for the prospective family farmer. Farm syndicates are amassing large land holdings, thus further concentrating ownership.

The federal government has stepped in to relieve the situation. The Department of Agriculture has developed a program that is supposed to guarantee the farmer a reasonable price for his produce. The government buys surpluses at guaranteed prices. The farmer is supposed to produce less in order to cut down on "surpluses", and is paid for keeping land out of use. Curbs and controls have encroached upon the farmer's traditional independence. The real gainers are the large owners. For instance, of the 50 to 75 million dollars paid out annually to support wool prices, 62% goes to fewer than 4% of the sheep raisers.

The "farm problem" remains unsolved and will so remain until a fundamental treatment is administered - that is, again opening up better natural opportunities by means of a tax on land value.

Size of Farm	Number of Farms				
	1900	1925	1950	1954	1959 ¹
	THOUSANDS				
TOTAL	5,737	6,372	5,381	4,782	3,703
Under 10 acres	267	379	485	484	241
10-49 acres	1,664	2,039	1,478	1,213	811
50-99 acres	1,366	1,421	1,048	864	658
100-259 acres	1,912	1,887	1,589	1,417	1,186
260-999 acres	481	583	660	674	671
1,000 acres and over	47	63	121	130	136

Source: Statistical Abstract of the United States, 1961.



New York Times,
Feb. 4, 1962

