LESSON I

THE PROBLEM

Suggestions to Teacher

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

The following suggestions are to be used at your discretion. However, the unit on "The Problem" is of particular importance since it is meant to dispel in advance any doubt as to the current relevance of George and of the course. The unit on "The Questionnaire" is less essential, and may be dispensed with if desired.

1. WELCOME

Distribute enrollment cards and questionnaires to students. Give them a few minutes to work on questionnaires and get acquainted. If you collect the enrollment cards before you formally open the class, you will have the names of students before you.

Open the class by welcoming students to the Henry George School. Introduce yourself and say a word or two about your background. If the class is not too large, ask the students to introduce themselves by name and occupation. They may also be asked to tell the group why they came. Then tell the students something of the School:

Its purpose is to teach political economy and social philosophy in order to contribute to a more informed citizenry. It was founded in 1932 by a New York scholar and businessman, Oscar H. Geiger. It is chartered as a nonprofit, nonpolitical institution by the University of the State of New York. From small beginnings it has grown and now has a large headquarters in New York City, extensions and affiliated schools in the United States and Canada, and sister institutions in several foreign countries. It is supported by an endowment and by the voluntary contributions of its friends and graduates and by public-spirited people who approve of the School's work. The work is also made possible by volunteer services; teachers serve on a voluntary basis. Its teachings and methods are based on principles of free inquiry and scientific analysis.

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

The School booklet contains additional information.

2. THE QUESTIONNAIRE

Mention briefly a few of the main social and economic problems which have attracted public attention at present. Point out that these and similar problems can be solved in a republic only by citizens learning to think them through, and that the School hopes to assist them in doing this.

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

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

3. THE PROBLEM

(a) In order to stress the prophetic character of George's thought, read the quotations at the beginning of the summary. Point out that these statements are taken from our text, and first appeared in print in 1879.

(b) Briefly review the essentials of George's career.

(c) Pass out copies of PROGRESS AND POVERTY to the students. Read aloud selected paragraphs beginning at the top of page 5: "This association of poverty with progress is the great enigma of our times." Many of your students may not be prepared to admit that poverty is really a major problem in the United States today. Ask them if they think it is, and do not discourage negative replies. Try, however, to make sure that by the end of the discussion they realize that "the problem," even though now somewhat masked, is just as real as it was in George's time.

4. OUTLINE OF COURSE

Explain that the course has been set up to follow in large measure the development of Henry George's analysis of the problem. Students should understand the points brought out in the book, but they are also urged to think for themselves and to test every step of the way with their own reasoning. Point out that the School does not regard George as an infallible authority or his writings as sacred dogma never to be questioned. It merely holds that he clarified many issues which would otherwise remain obscure, and that an understanding of his thought is vital for our time.

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

Lesson II - The Market Economy

The nature of economic laws, and the difference between a free economy and one which is politically dominated. Some basic laws of economics.

Lesson III - The Factors of Production

Definitions; production and the source of wages; theories which attribute poverty to an imbalance between the sources of production. In this lesson we begin by learning essential terms in the language of political economy. Effective discussion requires that we become familiar with these terms and be consistent in using them.

Lesson IV - The Laws of Distribution

The laws of rent, wages and interest are presented, demonstrating that poverty is primarily a problem of distribution.

Lesson V - Effects of Material Progress

How the laws of distribution apply in an expanding economy. Why material progress fails to abolish poverty.

Lesson VI - Proposed Remedies for a Sick Economy

An examination of various proposals, including those of Keynes and George.

Lesson VII - The Rightful Basis of Private Property

A consideration of the moral justification for private ownership.

Lesson VIII - A New Dimension in Taxation

Types of taxes. George's proposal compared with other means of public revenue in terms of the criteria for sound taxation.

Lesson IX - Practical Effects of George's Remedy

George's proposal as actually applied. Its effect on employment, purchasing power, housing, etc. Answers to typical questions.

Lesson X - The Law of Human Progress

How civilizations advance and decline. What must be done to save our own civilization.

Explain to the students how the study will be undertaken. One two-hour session a week for ten weeks. There will be a reading assignment in PROGRESS AND POVERTY (and/or other material to be distributed), and a thought question based on the assignment. The assignment and question will then be discussed at the following session. At the end of each session, a summary of its main points will be distributed, so that the student can have a record of what has been discussed, and can review it at his leisure. Occasionally, supplementary materials may also be passed out.

5. CONCLUSION

Close the session by announcing the reading assignment for Lesson II - "Henry George, PROGRESS AND POVERTY (Hogarth abridgment)", pages ix to xvi and pages 1 to 7, together with the following thought question: "Since political economy does not lend itself to laboratory experiment, how can it be studied as a science?"

Collect money for the books.

Collect any enrollment cards you may have missed earlier. Point out that enrollment for the course is still open, and invite the students to bring friends to the next session.

LESSON II

THE MARKET ECONOMY

Assigned Reading: "Henry George, PROGRESS AND POVERTY (Hogarth abridgment)"
Pages ix to xvi and pages 1 to 7

Purpose:

To understand the market economy and its emphasis upon economic laws.

Objectives:

To compare the command with the market economy.

To differentiate between economic laws and governmental laws.

To note two axioms:
- Man seeks to satisfy his desires with the least effort.
- Man's desires are unlimited.

To demonstrate three economic laws:
- Supply and Demand
- Law of Competition
- Law of Diminishing Returns

Economic Vocabulary:

- political economy
- economic law
- man-made law
- command economy
- market economy

Leading Questions:	Instructor's Comments
1. To what degree does the United States have a market economy today?	
2. Discuss the trend towards a command economy during the past forty years and the reasons for this development.	

3. What assumptions are made about the nature of man and the role of government by those who advocate a command economy?

4. What assumptions are made about the nature of man and the role of government by those who advocate a market economy?

5. Compare the problems of the social scientist (an economist) with that of a physical scientist (a chemist). What experiments can one perform that cannot be performed by the other?

6. How do the methods and approaches used by a command economist differ from those of a market economist?

7. Distinguish between natural laws and man-made laws.

8. Are there natural laws which are also economic laws? Discuss.

9. Cite examples of man-made or governmental laws.

<u>Chalkboard Suggestions</u>:

1. <u>Basic Economic Laws</u>

Head three columns on the board: Basic Economic Laws, Counteracting Governmental Forces, and Counteracting Nongovernmental Forces. The counteracting forces represent those laws and methods employed which tend towards interfering with the economic laws. For example, the law of competition is interfered with by the various minimum wage laws enacted by legislative bodies and price agreements amongst manufacturers.

The students fill in all the details. If some difficulty arises in supplying the basic economic laws, it may be necessary to fill this part in yourself. Once the students begin to fill in the details, it should bring to light the effect that man-made laws have upon economic laws.

2. The Market Economy and the Command Economy

Have students fill in the following chart:

Types of Economies	Effect on Prices	Effects on Wages	Effects on Production
Market			
Mixed			
Command			

The purpose is to demonstrate the effect that various types of economies have upon prices, wages and production. Other categories may be added. The answers ought to be in relationship to each other, rather than absolute. For example, price in a market economy tends towards a minimum because of competition, whereas it is arbitrary in a command economy.

Supplements:

1. Supplement A - Galbraith and the Market Economy.

   (a) Comment on Galbraith's analysis of the market economy.
   (b) How valid are his comments? With our advanced technology, does the consumer have a choice?
   (c) Compare various industries and comment upon their relative degree of competitiveness.

2. Supplement B - What is the Market?

   (a) Why does Galbraith feel that planning should replace the market place?
   (b) Evaluate the author's criticism of Galbraith.
   (c) Comment on the three functions of the state, as given in the article.

Culmination:

Pass out Summary of Lesson II.

Assigned Reading: "Henry George, PROGRESS AND POVERTY (Hogarth abridgment)"
Pages 8 to 39 (supplementary reading, pages 40 to 60).

Thought Question: In what ways do the definitions of the important terms in the text differ from common usage?

SUPPLEMENT A

Galbraith and the Market Economy

In the market economy the price that is offered is counted upon to produce the result that is sought. Nothing more need be done. The consumer, by his offer to pay, obtains the necessary responding action by the firm that supplies his needs. By offering to pay yet more he gets more. And the firm, in its turn, by similar offers gets the labor, materials and equipment that it requires for production.

Planning exists because this process has ceased to be reliable. Technology, with its companion commitment of time and capital, means that the needs of the consumer must be anticipated - by months or years. When the distant day arrives the consumer's willingness to buy may well be lacking. By the same token, while common labor and carbon steel will be forthcoming in response to a promise to pay, the specialized skills and arcane materials required by advanced technology cannot similarly be counted upon. The needed action in both instances is evident; in addition to deciding what the consumer will want and will pay, the firm must take every feasible step to see that what it decides to produce is wanted by the consumer at a remunerative price. And it must see that the labor, materials and equipment that it needs will be available at a cost consistent with the price it will receive. It must exercise control over what is sold. It must exercise control over what is supplied. It must replace the market with planning.

From: THE NEW INDUSTRIAL STATE -
John Kenneth Galbraith -
"The Nature of Industrial Planning"

SUPPLEMENT B

What is the Market?

IN PROFESSOR GALBRAITH'S Reith Lectures the themes of the trend towards bigness and the need for economic planning are combined. Both are seen as an inevitable consequence of modern technology. It is an appealing theory, rendered still more fascinating by the dry wit of its originator, but as a reasoned argument it is very rickety. Professor Galbraith emphasises certain facts about the economic scene, ignores other facts, and not surprisingly, proceeds to draw false conclusions.

In the first lecture Galbraith compares the manufacture of the early Ford with that of a modern motor car and describes the main differences: "large commitments of capital, a great elapse of time between the initiation of production and its completion, extensive reliance on specialised manpower, intricate organisation and—as an ultimate consequence—diminished effectiveness of the market."

With the list of changes in production and the inferred need for detailed forward planning one can agree, but the so-called consequence does not follow. If the market is now regarded solely as a place where housewives can spy out the best and cheapest tomatoes, then to a large extent the market has gone (though to a large extent also, it remains as Galbraith later admits), but the market should not be so regarded. The distinction that Galbraith is making is that whereas in the days of the first Ford, materials could simply be bought "off the peg," nowadays many commodities required for manufacture are so specialised in design that they have to be ordered in advance. Nevertheless, they are still produced to meet a consumer preference, they can still be ordered from another supplier, and there is still the same incentive to keep custom that may be lost.

Although in the sphere of industry about which Galbraith is talking the number of business units is much smaller than in the past, the market for their products (he neglects to tell us) is very much larger and often world-wide. There are not many major groups manufacturing motor cars in Britain today but despite tariffs they are in direct competition with groups in other countries of western Europe and in the United States. Similarly, Galbraith remarks that when the original Ford was produced, a labourer or a machine operative could probably be hired at the nearest saloon, whereas a systems engineer cannot. He does not mention that newspapers enable a modern large company to look for its systems engineers not only in the nearest town but over a whole state or country.

The need for a period of planning, the argument runs, begets the need for prices to be fixed in advance, and kept stable. Accordingly, prices are determined by the large corporation and no longer left to the market. However, everyone having something to sell fixes its price, just as everyone tries to persuade the public to buy (the tomato seller usually cries his product's virtues with great gusto). Experiments with price may take place after the goods are on sale, or in the planning stage before they go on sale. In some cases sellers will try alternative tactics, such as an increase in advertising, before altering price, but in the last resort either price must be adjusted or the product itself modified. The consumer is therefore still sovereign, and competition among the giants themselves is a good protection against hypnotic persuasion.

Galbraith contrasts a free market in which, he says, "the initiative lies with the individual" with the creation of an elaborate new product where the initiative lies with the producer. They are produced and tried out and if they sell well more are produced. It does not often happen that consumers ask for a non-existent product which someone then manufactures, except precisely in the areas of greatest technological complexity. The argument is stood on its head!

Division of Labour Overlooked

About a market economy, muses Galbraith nostalgically, there is "something admirably libertarian and democratic" but the market is being overtaken by the evolution of modern business. Big units come about not only to achieve economies of scale, or to attain a monopoly position, but to meet the demands of planning itself. and for this purpose "it could be that the bigger the better."

Once more, one trend is being emphasised at the expense of another. The tendency to increased size has been accompanied for centuries by the opposite tendency of the division of labour, and this has been greatly stimulated by advancing technology. Galbraith should have compared the manufacture of the original Ford by one firm with the fact that today some two-thousand firms may participate in the manufacture of a motor car. The development of technology can result in more planning within an organisation but can also lead to a more highly articulated and co-ordinated free market.

Galbraith quotes a United States Steel Corporation annual report: "The American competitive enterprise

SUPPLEMENT B (continued)

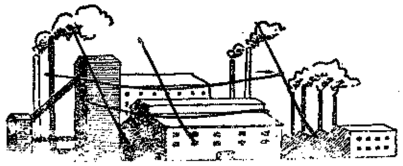
system is an acknowledged profit and loss system, the hope of profits being the incentive and the fear of loss being the spur," and regards this statement as nonsense because nearly all the largest firms make profits. Certainly, a large company will not easily make an overall loss, but it may lose in a branch of its activities, or on a single product, and although it makes an overall profit, the rate of profit might be decreasing. Galbraith argues that the growth of the corporation, which brings new opportunities and prestige for the executives who manage it, is now more important than the maximisation of profit, in which the executives do not normally share, but it is difficult to see how growth can come about except through success as measured by profit. If the desire by executives for *secure* earnings is making large corporations less adventurous than they should be, the remedy lies in increased competition, revision of the patent laws, and strengthened control by shareholders.

Functions of the State

One aspect of the technological revolution on which Galbraith is particularly interesting is the change in the nature of decision making. Individuals now rarely have the knowledge to appreciate all the facts on which recommendations are made and frequently have to accept the conclusions of groups of experts, who have to be shielded from amateur interference even by the company's owners. Nonetheless the responsibility and risk are taken by the individual at the top — and it is he who decides on timing, and allocation of money, in relation to other priorities, and it is he, not his experts, who will most suffer the consequences of failure.

The essence of the Galbraith thesis is that the planning in the large corporation has to be supplemented by the planning of the state. The state has three functions: to control prices and wages and aggregate demand generally; to supply the specialised manpower that industry requires; and to underwrite very large technological projects.

It is a proper responsibility of the state to regulate



"aggregate demand" if by that is meant the supply of money. Control of prices and wages is not necessary to achieve this; on the contrary it is a sign of failure to achieve it.

The state does not supply specialised manpower. A young man's decision to follow a trade is governed by his assessment of the prospects in that trade, not on what skills the state thinks are needed. These prospects including remuneration, are better when industry requires more men in that line than are available, but that is the beauty of the market.

The technological projects underwritten by the state can be divided into two kinds: those where state intervention is unnecessary, as with aircraft (some aircraft are not supported by the state), and those, like space research, where private industry could not hope to make a profit — a sound indication that people would rather be free to spend their money on other things. (Defence is in a separate category because it is an essential function of government itself.)

No reconciliation

Attractively, Galbraith suggests that just as organisations in the private sector become independent of both consumers and shareholders, so public corporations become independent of public control, whether that control be democratic or not. It follows that the old labels of capitalism, democratic socialism and authoritarian communism are becoming meaningless, and that there is in reality a convergence between the different systems. The idea of convergence is popular since the re-introduction of the profit indicator for factories in the Soviet Union, but Galbraith is careful to point out that this decentralisation is not a return to the marked but "a shift of some planning functions (including some control of prices) from the state to the firm". One continuing difference is that in the private sector there is a means of checking on the decision making of a large corporation — by consulting the decision-making of its competitors. In a nationalised industry there is no such check.

Professor Galbraith's conclusion is that the development of the partnership between the large corporation and the state could tend to make the needs of the industrial system so dominant that all else will be subordinated to it. His plea for the aesthetic dimension of life to be preserved will be echoed by many who do not share Galbraith's theories.

The industrial system will be seen in perspective only when men are not compelled to think always of their material wants, when the world economy has become so efficient that a high material standard is available to everybody. When that happens a fuller and richer life will be possible for all of us, but only if freedom is maintained. It is doubtful indeed whether freedom can be reconciled with economic planning.

From: LAND AND LIBERTY
March 1967
"Economist Out On A Limb"

LESSON III

THE FACTORS OF PRODUCTION

Assigned Reading: "Henry George, PROGRESS AND POVERTY (Hogarth abridgment)"
Pages 8 to 39 (supplementary reading: pages 40 to 60)

Purpose:

To define and explain the nature of wealth and the factors of production.

Objectives:

To define the nature of wealth.

To examine the role of land as a factor of production, and of rent, its avenue of distribution.

To examine the role of labor as a factor of production, and of wages, its avenue of distribution.

To examine the role of capital as a factor of production, and of interest, its avenue of distribution.

To show the relationship of the Wage Fund Theory and the Malthusian Theory to the problem of poverty.

Economic Vocabulary:

wealth
land
rent
labor
wages
capital
interest

Leading Questions: | **Instructor's Comments**

1. Distinguish between personal wealth and national wealth. Cite examples of personal wealth that is not considered to be national wealth.

2. Why is land usually not accorded the same importance as the other two factors - labor and capital?

3. In what ways does land basically differ from capital and labor?

4. How does economic rent differ from rent as the term is popularly used?

5. Compare the prevalent labor union understanding of the basis of wages with the basis set forth in the text.

6. In what occupations is it easiest to observe that wages are tied to production in our economy?

7. Why is there much confusion concerning the nature of capital? Of interest?

8. Cite examples in which the use and nature of capital is determined by industry and society.

9. Describe the commonly accepted fallacy concerning the relationship between capital and labor.

10. To what extent is the Wage Fund Theory accepted today?

11. What is the connection between population and poverty?

Chalkboard Suggestions:

1. Definition of Wealth

Obtain the characteristics of wealth from the students and then place them horizontally, in column form, on the board (Even though some of these may differ from the text, they should be included. They can be eliminated later on, after the inconsistencies are shown). Then request examples of wealth and match the examples with its characteristics. For an item to be wealth, it must have all the qualities and not only one or two. Place an X under the appropriate columns. For example:

Example	Material Thing	Exchange Value	Human Effort
car	X	X	X
tree	X	X	X
land	X	X	
~~human knowledge~~		X	X

This method of developing definitions may trigger good discussions. For example, some economists consider knowledge capital and hence wealth. It may be asked "What then happened to all this wealth during the depression?"

Supplements:

1. Supplement A - Money and Wealth Are Not The Same

   (a) Why is money usually included as wealth?
   (b) If money is considered wealth, how may this affect government policy?

2. Supplement B - Population Density

Compare various countries such as sparsely populated Australia, Canada, U.S.A. and densely populated Belgium, Holland, Germany and Great Britain. Note that these countries have far higher standards of living than such countries as Brazil, China, Egypt and Pakistan. Indicate that density of population is not a relative factor in the existence of poverty.

3. Supplement C - Green Revolution

Criticize the Malthusian Theory in the light of recent revolutionary developments in agriculture.

Other Sources:

1. An Economic Textbook

Obtain one or several economic texts and compare their definitions with ours. The students can then observe the differences and the usual confusion. The Encyclopedia of Social Sciences and the International Encyclopedia of Social Sciences present some very useful definitions of national wealth, capital and land.

2. A Globe

A globe of the world can be used to demonstrate the sparse and dense areas of the world. Then compare it with the various standards of living.

3. Newspapers and Magazines

Articles that mention wealth, land, capital, money, rent, profit, etc., can usually be found in the business and real estate sections of the Sunday papers. Indicate the contexts in which these terms are used and then compare them with our definitions. Indicate any confusion in usage.

Culmination:

Pass out Summary of Lesson III.

Assigned Reading: "Henry George, PROGRESS AND POVERTY (Hogarth abridgment)" Pages 61 to 86.

Thought Question: Show the relationship between the laws of rent, wages and interest.

SUPPLEMENT A

Money and Wealth Are Not the Same

By MORTIMER J. ADLER

The repeated efforts to correct the mistake of identifying money with wealth indicates that this error is widely prevalent in all eras. Aristotle holds that the use of of money begins with retail trade, which "is not a natural part of getting wealth"; for, he continues, "had it been so, men would have ceased to exchange when they had enough." Retail trade, he notes, "replaces the barter of necessary articles," and it is made possible by the use of coin. It then comes to be thought of as "the art which which produces riches and wealth."

Mortimer Adler

"Indeed," Aristotle remarks, "riches are assumed by many to be only a quantity of coin." He argues, on the contrary, that "coined money is a mere sham, a thing not natural, but conventional only . . . because it is not useful as a means to any of the necessities of life, and he who is rich in coin may often be in want of necessary food. But how can that be wealth of which a man may have a great abundance and yet perish with hunger, like Midas in the fable, whose insatiable prayer turned everything that was set before him into gold?"

Although in a sense it is true to say that money in itself cannot satisfy a single natural need, this does not mean that money serves no economic purpose. Plato and Aristotle, Hobbes, and Locke, in company with the economists Adam Smith and Karl Marx, recognized that money is useful s a medium of exchange. It is indispensable, says Marx, for "the circulation of commodities" beyondthe stage of barter. In Plato's view, money is more than a medium of exchange. "It reduces the inequalities and incommensurabilities of goods to equality and common measure."

Adam Smith also argued that it would be foolish to confuse, as the mercantilist theory does, wealth with money. It would be too ridiculous to go about seriously to prove," Smith writes does not consist in money, or in gold or silver; but what money purchases, and is valuable only for purchasing . . . Goods can serve many other purposes besides purchasing money, but money can serve no other purpose besides purchasing goods." He nonthelcss cautions that the idea that "wealth consists in gold and silver is a popular notion." It naturally rises from "the double function of money, as the instrument of commerce, and as the measure of value."

This distinction, between real wealth and money, has played an important role in theories of morality. As Marx points out, the Greeks "denounced money as subversive of the economical and moral order of things." In the passage in Sophocles that he quotes, Creon declares: "Nothing so evil as money ever grew to be current among men. This lays cities low, this drives men from their homes, this trains and warps honest souls till they set themselves to works of shame; this still teaches folk

From: Long Island Press
October 6, 1968

SUPPLEMENT B

Population Density

Continent and state	Area in sq.mi.	Population in 000	Persons per sq.mi.
World total	57,903,430	3,679,045	63.5*
AFRICA	11,640,372	319,899	27.5
Algeria	919,591	12,093	13.1
Botswana	222,000	593	27.5
British dependencies	1,117	824	—
Burundi	10,707	3,210	299.8
Cameroon	183,591	5,299	28.5
Central African Republic	240,540	1,437	5.9
Chad	490,733	3,307	6.7
Congo (Brazzaville)	134,749	805	5.9
Congo (Kinshasa)	905,063	16,664	18.4
Dahomey	43,483	2,462	56.6
Ethiopia	471,776	23,000	48.8
French dependencies	10,225	777	—
Gabon	102,317	474	4.6
Gambia, The	4,361	343	78.7
Ghana	92,100	7,945	86.2
Guinea	94,925	3,608	38.0
Ivory Coast	123,483	3,920	31.7
Kenya	224,960	9,948	44.3
Lesotho	11,716	852	72.7
Liberia	43,000	1,090	25.4
Libya	679,536	1,679	2.5
Malagasy Republic	226,657	6,562	29.0
Malawi	45,725	4,042	88.4
Mali	478,822	4,745	9.9
Mauritania	397,683	1,100	2.8
Morocco	174,471	13,882	79.6
Niger	459,073	3,546	7.7
Nigeria	356,669	58,600	164.3
Portuguese dependencies	779,556	13,174	—
Rwanda	10,169	3,239	318.6
Senegal	76,124	3,580	47.0
Sierra Leone	27,925	2,403	86.0
Somali Republic	246,155	2,750	11.2
South Africa	471,819	18,298	38.8
(Southern) Rhodesia	150,333	4,530	30.1
South West Africa†	318,261	610	19.2
Spanish dependencies	114,124	525	—
Sudan	967,491	14,148	14.5
Swaziland‡	6,705	374	55.8
Tanzania	362,844	10,600	29.0
Togo	21,853	1,702	77.8
Tunisia	63,378	4,458	70.3
Uganda	91,134	7,740	84.9
United Arab Republic	386,872	30,083	77.8
Upper Volta	105,869	5,054	47.7
Zambia	290,587	3,894	13.4
ANTARCTICA	5,500,000§	0.2	—
Australian dependencies	2,472,113	—	—
British Antarctic Territory‖	500,000	0.1	—
French Southern and Antarctic Lands	157,874	0.1	—
Norwegian dependencies	119¶	—	—
Prince Edward and Marion Islands (South African)	110	—	—
Ross Dependency (New Zealand)	160,000	—	—
ASIA (exclusive of U.S.S.R.)	10,676,377	1,983,181	185.7
Afghanistan	251,000	15,909	63.4
Australian dependencies	58	4	—
Bahrain‡	231	193	835.5
Bhutan (Indian protected state)	16,000	750	46.9
British dependencies	112,576	4,865	—
Brunei‡	2,226	104	46.7
Burma	261,789	25,246	96.4
Cambodia	69,898	6,200	88.7
Ceylon	25,332	11,491	453.6
China, Communist	3,691,502	825,000	223.4
Cyprus	3,572	610	170.7
Formosa (Taiwan; Rep. of China)	13,885	13,142	946.3
India (incl. Kashmir)	1,261,813	498,680	395.2
Indonesia	735,268	110,000	149.6
Iran	636,367	25,781	40.5
Iraq♀	167,568	8,338	49.8
Israel	7,993	2,625	328.4
Japan	142,727	99,822	699.4
Jordan	37,737	2,040	54.1
Korea, North	46,540	12,800	275.0
Korea, South	38,004	29,953	788.2
Kuwait	7,450	491	659.7
Laos	91,428	2,440	26.7
Lebanon	4,015	2,460	612.7
Malaysia	127,672	9,675	75.7
Maldive Islands	115	101	878.2
Mongolia	604,247	1,156	1.9
Muscat and Oman‡	82,000	750	9.1
Nepal	54,362	10,294	189.4
Pakistan	365,529	105,044	287.3
Philippines	115,740	34,656	299.4
Portuguese dependencies	5,769	840	—
Qatar‡	4,000	75	18.7
Ryukyu Islands (United States)	848	953	1,123.8
Saudi Arabia♀	873,972	6,870	7.9
Sikkim (Indian protected state)	2,828	180	63.6
Singapore	225	1,940	8,622.2
Syria	71,498	5,450	76.2
Thailand	198,455	32,836	165.5
Trucial States‡	32,278	130	4.0
Turkey	301,380	32,901	109.2
Vietnam, North	61,293	18,300	298.7
Vietnam, South	66,897	16,973	253.7
Yemen	75,290	5,000	66.4

Continent and state	Area in sq.mi.	Population in 000	Persons per sq.mi.
AUSTRALIA and OCEANIA	3,286,169	18,929	5.8
Australia	2,967,909	11,587	3.9
Australian dependencies	178,281	2,190	—
British dependencies	18,952	1,160	—
British-French condominium	5,700	77	13.4
French dependencies	8,971	200	—
New Zealand	103,736	2,935	28.3
New Zealand dependencies	197	26	—
Tonga‡	270	77	286.7
United States dependencies	1,029	175	—
United States-British condominium	27	370	13.7
Western Samoa	1,097	132	120.7
EUROPE (exclusive of U.S.S.R.)	1,903,677	647,086	339.9
Albania	11,100	2,000	180.2
Andorra	175	14	80.0
Austria	32,374	7,290	225.2
Belgium	11,781	9,556	811.1
British dependencies	304	186	—
Bulgaria	42,823	8,257	192.8
Czechoslovakia	49,371	14,240	294.4
Denmark (incl. Faeroe Islands)	17,144	4,891	285.3
Finland	130,119	4,661	35.8
France	211,209	49,650	235.1
Germany, East	41,816	17,067	408.1
Germany, West (incl. W. Berlin)	95,957	59,674	621.8
Greece	50,944	8,612	169.0
Hungary	35,919	10,197	283.9
Iceland	39,702	197	4.9
Ireland	27,136	2,892	106.3
Italy	116,305	53,327	458.5
Liechtenstein	62	20	314.5
Luxembourg	999	350	350.3
Malta	122	317	2,602.2
Monaco	0.6	24	40,000.0
Netherlands	13,967	12,535	897.4
Norway (incl. Svalbard and Jan Mayen Land)	149,282	3,772	25.3
Poland	120,359	31,869	264.8
Portugal	35,510	9,382	264.2
Romania	91,699	19,248	209.9
San Marino	24	18	743.7
Spain	194,883	31,871	163.5
Sweden	173,665	7,844	45.2
Switzerland	15,941	5,999	376.3
United Kingdom of Great Britain and Northern Ireland	94,213	54,744	581.1
Vatican City	0.2	0.9	5,029.4
Yugoslavia	98,766	19,375	200.8
NORTH AMERICA	9,361,568	302,462	32.3
Barbados	166	248	1,493.9
British dependencies	14,775	714	—
Canada	3,851,809	20,334	5.3
Costa Rica	19,652	1,514	77.4
Cuba	44,218	7,800	176.4
Dominican Republic	18,703	3,754	200.7
El Salvador	8,056	3,037	376.8
French dependencies	1,199	649	—
Greenland (incl. icecap; Danish)	840,000	40	0.05
Guatemala	42,042	4,717	112.2
Haiti	10,714	4,577	427.2
Honduras	43,277	2,445	56.5
Jamaica	4,244	1,890	445.3
Mexico	761,600	45,671	59.9
Netherlands Antilles	394	211	535.5
Nicaragua	50,193	1,685	33.6
Panama (excl. Canal Zone)	29,208	1,329	45.5
Trinidad and Tobago	1,980	1,000	505.1
United States	3,615,210	198,065	54.7
United States dependencies	4,128	2,782	—
SOUTH AMERICA	6,885,778	173,205	25.2
Argentina	1,072,067	22,691	21.2
Bolivia	424,162	3,801	8.9
Brazil	3,286,470	85,655	26.1
Chile	292,257	9,000	30.8
Colombia	439,735	19,215	43.9
Ecuador	109,483	5,508	50.3
Falkland Islands (British)	6,270	2	0.3
French Guiana	35,135	37	1.1
Guyana	83,000	677	8.2
Paraguay	157,047	2,161	13.7
Peru	496,222	12,012	24.3
Surinam (Netherlands Guiana)	63,251	345	5.4
Uruguay	68,536	2,749	40.1
Venezuela	352,143	9,352	26.6
U.S.S.R.	8,649,489	234,396	27.1

From: Encyclopedia Americana (Supplement) 1968

'GREEN REVOLUTION'

Future population boom may not bring hunger

BY PAUL SCOTT
WASHINGTON

Special Report

The "green revolution" is forcing government food and population experts to play down those dire forecasts that the expanding population of the world, if not checked, will cause large-scale famine before the turn of the century.

With food production now increasing faster than the world's population, the government's projections of the food population balance for future years has taken a dramatic turn for the better.

MOST EXCITING of the new forecasts is the one being made by Jean Mayer, director of the forthcoming December White House Conference on Food and Nutrition.

The internationally famed nutrition expert points to the likelihood that within the next 20 to 30 years "food will be removed altogether as a limiting factor to population."

Mayer contends that increased food production and international organizations will make large-scale famines, such as those that have occurred in India and Communist China, as a thing of the past.

Although a strong advocate of population limitation policies, Mayer is counseling President Nixon against using the threat of a worldwide shortage of food as one of his main arguments for large-scale limitations on births.

The hypothetical famine argument, according to Mayer, will not stand the test of time because of the "green revolution" and the revolutionary advances in agriculture.

In the Administration's backstage strategy discussions, Mayer stresses that the President in his fight for population controls should highlight the dangers of increasing air and water pollution from a population with increasing income.

A PAPER by Mayer being circulated among the President's Cabinet puts it this way:

"The ecology of the earth — its streams, woods, animals — can accommodate itself better to a rising poor population than to a rising rich population. To save the ecology of the earth, the population will have to decease as the disposable income increases . . .

"Shall we continue to hide the fact that a rational policy may entail in many countries not only a plateauing of the population to permit an increase in disposable income, but a decrease of the population as the disposable income rises?"

In support of his optimistic view of the future world food supply, Mayer's paper points out that the phenomenal increase in food production in the U.S. in recent years has not come from the extension of land under cultivation but from the increases in the use of fertilizers.

FOR EXAMPLE, farmers in Kansas harvested 304,000,000 bushels of wheat on 9,000,000 acres in 1969 — or the second largest crop in that state's history. The largest Kansas wheat crop was 307,000,000 bushels in 1952. But it took 18,000,000 acres to produce the 1952 crop — or double the number needed to produce almost the same crop this year.

Of the world's land mass, Mayer reports, only 3.4 billion acres are at present under cultivation. This represents less than 11 per cent of the total land area in the world.

Leading agriculture experts, according to Mayer, now estimate that the area that can eventually be made arable runs from 17 to 19 billion acres. With use of fertilizers, new seed and improved farm practices, it is now estimated that upward to 96 billion people can be supported by the 19 billion acres. At the present rate of population growth, the world population is not expected to exceed 7 billion by 2000.

According to Mayer and other government agriculture experts, there are many other advances in agriculture which could greatly increase the food supply that have yet to be applied on a large scale throughout the world.

THE IDENTIFICATION of necessary trace elements and their incorporation into fertilizers and feed have opened vast areas to cultivation and husbandry in Australia and other countries with large undeveloped areas.

Selected breeding of plants and animals has permitted the development of species with superior hardiness and increased yields. New strains of rice developed in Mexico are now being used in India to increase production. This development alone has caused agriculture experts to forecast that India will be able to feed its own population within three to five years.

Mayer also forecasts great strides in the development of new food from space programs, stating:

"Interplanetary travel of long duration and the organization of distant stations requires not only recycling of oxygen and waste water, they necessitate the fabrication of food and its integration into the recycling of oxygen, water and excreta.

"Over the next two decades, an increasing fraction of several billion dollars that the U.S. and the Soviet Union will spend every year for space travel is going to be channeled into life support systems.

"THE MONEY spent in the aggregate on new methods of food production will probably, during that period, dwarf the cost of the Manhattan project. The usable "fall-out" of such research is likely to be enormous.

"Certainly if economical harnessing of photosynthesis, through biological units or directly, can be realized under the hostile interplanetary, lunar, or martial conditions, it should become relatively easy to put it into effect on earth. Obviously, a breakthrough in this field could for centuries altogether remove food as a limiting factor to population growth."

LESSON III --
THE FACTORS OF PRODUCTION

SUPPLEMENT C

From: The Birmingham News
Sunday, Oct. 5, 1969

LESSON IV

THE LAWS OF DISTRIBUTION

Assigned Reading: "Henry George, PROGRESS AND POVERTY (Hogarth abridgment)"
Pages 61 to 86

Purpose:

To develop and relate the Laws of Rent, Wages and Interest.

Objectives:

To develop the Law of Rent.

To develop the Law of Wages.

To develop the Law of Interest.

To show the relationship of the laws to one another.

Economic Vocabulary:

margin of production
redistribution
profits
general rate of wages

Leading Questions: **Instructor's Comments**

1. Poverty is mainly a distribution and not a production problem. Explain.

2. Show the conditions under which rent arises, and the relationship between rent and the demand for land.

3. Why are some lands more desirable than others?

4. Explain the law of rent and relate it to contemporary conditions.

5. Differentiate between relative wages and the general rate of wages. What factors determine each?

6. Why are there variances in wages?

7. Explain the law of wages.

8. Discuss theories of wages not directly based upon production and scarcity (collective bargaining, minimum wages, guaranteed annual wages, etc.)

9. What is the minimum and the maximum that one will pay for the use of capital?

10. At what point does interest tend to settle?

11. What is the law of interest?

Chalkboard Suggestions:

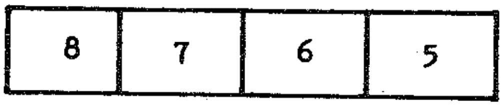
1. The Law of Rent

The law of rent can be explained with the use of diagrams. The following diagrams are presented along with the appropriate explanations.

THE LAW OF RENT

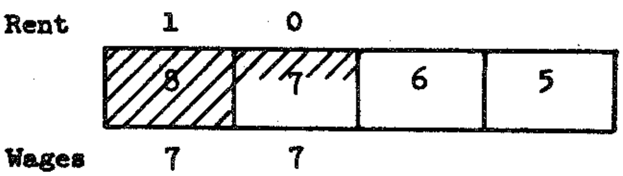
These illustrations show how rent arises and is measured in relation to wages, in a new society where capital is not yet used.

Let us imagine a new country where settlers are first arriving, and all the land is free. Different lands have varying degrees of productivity. In these illustrations we will assume that all the laborers have equal productivity.



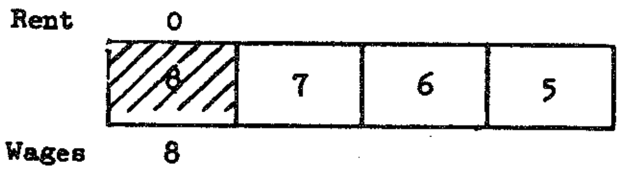
A. Represents a new country divided into areas of varying productivity. The figures represent what each grade of land will yield per unit of labor - e.g., 8 bushels of potatoes for one day's work; 7 bushels, etc.

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



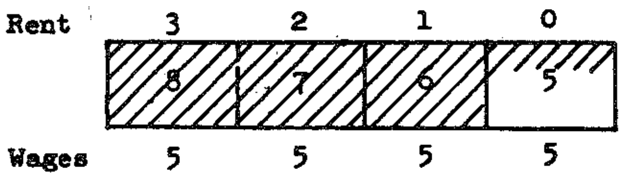
C. Eventually, all the "8" land is occupied, and the next comers must resort to "7" land. This land is free and yields no rent. The entire product of 7 goes to labor as wages. This "7" land is now the margin of production - the best land to be had for nothing.

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



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

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



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

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

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

Supplements:

1. Supplement A - Relationship Between Interest and Wages

    (a) What prevents capital from obtaining an excessive portion of the pie?
    (b) At what point does capital replace labor?
    (c) What is the relationship between wages, interest and rent?

2. Supplement B - Return to Capital

    (a) According to the chart, to what degree has the return to capital changed over the years?
    (b) Why does capital in certain industries receive greater returns than other industries?
    (c) What does the chart indicate about the return to capital in general?
    (d) Although not stated, what do you think is included in their definition of capital?

3. Supplement C - Misguided Militancy

    (a) How does Dr. Allen justify wage increases?
    (b) How well does the author refute the argument?
    (c) What is the relationship between inflation and wages?

Other Sources:

1. Balance Sheet

Analyze a balance sheet of a corporation and indicate the differences in interpretation in light of our study to date.

Culmination:

Pass out Summary of Lesson IV.

Assigned Reading: "Henry George, PROGRESS AND POVERTY (Hogarth abridgment)" Pages 87 to 115.

Thought Question: Describe the effect that land speculation has upon a developing society.

NOTE:

Under the heading, "Some Further Thoughts on Interest," the Summary for this lesson includes a brief presentation of George's "reproductive modes" theory of interest as set forth in Chapter 3 of the unabridged version of

PROGRESS AND POVERTY. It is omitted from the abridged version. Many of George's followers do not accept this theory, and it is really a digression from his main theme, not essential to an understanding of the Laws of Distribution. It has been included in the Summary because of its effectiveness in refuting the Marxist theory of surplus value, to be used or not at the option of the teacher.

SUPPLEMENT A

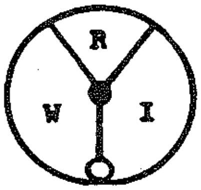
Relationship Between Interest and Wages

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

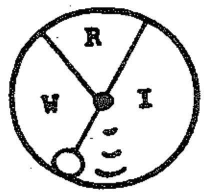
In effect, interest is a return for human exertion which has been previously applied and stored up in material form to increase production. This return (interest) will balance with the returns for other human exertion applied directly (wages). Interest and wages will be equally attractive because people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

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

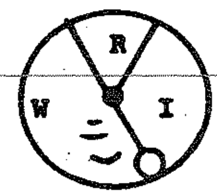
Wages are determined by what labor can obtain at the lowest point of production, that is, the best land available rent-free (the margin of production). Wages can be no higher on any better land because the competition of people seeking the higher return would naturally tend to lower wages there, also.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



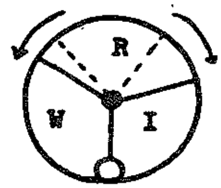
A. The total product is divided into rent (R), wages (W) and interest (I). Between wages and interest there is a balance represented by the pendulum dividing them.



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



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



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

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

SUPPLEMENT B

Return to Capital

Industry	1963	1962	1961	1960	1959	1958	1953	1949	1939
	NET EARNINGS, AS PER CENT OF CAPITAL INVESTED								
TOTAL corporate manufacturing	5.86	5.37	4.84	3.90	4.94	3.55	5.13	7.36	5.12
Food, beverages and tobacco	5.91	5.32	5.44	4.91	5.31	5.12	4.78	6.94	6.93
Food and beverages	5.49	4.88	4.95	4.41	4.88	4.67	4.74	6.97	6.38
Tobacco manufactures	8.73	8.21	8.48	8.08	8.08	8.00	4.96	6.75	10.31
Textiles and their products	3.75	3.81	3.21	3.16	3.86	2.25	2.17	4.83	3.56
Textile-mill products	3.85	3.95	3.23	3.36	4.36	2.42	2.35	5.74	3.74
Apparel and fabric products	3.57	3.58	3.17	2.78	2.93	1.92	1.73	2.55	2.86
Leather and products	3.47	4.23	2.81	2.69	4.33	3.12	3.29	3.75	4.05
Rubber products	4.95	5.10	4.97	2.82	4.78	3.79	4.54	4.08	5.02
Lumber and furniture products	4.54	3.33	2.41	1.74	4.98	3.57	4.86	6.16	1.92
Lumber and wood products	4.62	2.99	2.06	1.67	5.49	3.90	5.06	6.01	.72
Furniture and fixtures	4.36	4.10	3.17	1.90	3.93	2.84	4.41	6.50	3.48
Paper and allied products	4.98	5.15	5.43	5.07	6.36	4.82	7.31	8.31	4.18
Printing and publishing	5.89	5.55	5.69	5.49	6.55	5.13	5.66	7.99	4.46
Chemicals and petroleum products	5.28	4.96	5.29	3.26	3.62	2.50	4.04	5.44	4.07
Chemicals and allied products	8.59	8.07	8.11	6.59	7.94	6.21	6.12	9.69	9.32
Petroleum and coal products	3.64	3.16	3.50	1.18	1.01	0.34	2.67	2.90	.79
Stone, clay and glass products	5.56	4.94	5.10	4.55	6.25	4.71	6.79	10.30	6.49
Metal products and processes	6.38	5.86	4.68	3.98	5.32	3.47	6.10	9.58	5.80
Primary metal industries	3.76	2.79	3.42	3.08	4.35	3.00	5.59	7.42	n.a.
Fabricated metal products[1]	4.71	4.76	3.88	2.67	4.15	3.68	5.81	7.52	n.a.
Electrical machinery	4.66	4.78	4.44	3.82	6.22	4.82	6.54	8.59	9.97
Machinery, except electrical	5.91	5.75	4.50	3.69	5.21	3.67	5.67	8.39	6.27
Motor vehicles and equipment	17.09	14.82	10.78	10.07	10.40	2.51	8.56	20.17	8.66
Transportation equipment, other	3.88	4.46	1.25	0.57	1.52	3.68	4.26	4.06	4.23
Miscellaneous manufacturing	5.54	5.47	5.05	4.50	5.54	4.12	4.41	5.69	6.00
Instruments and related products	6.92	6.61	6.11	5.75	7.02	5.35	6.14	7.26	n.a.
Other	3.77	4.13	3.92	3.14	4.11	3.03	3.18	4.88	n.a.

From: The Conference Board
Treasury Department

SUPPLEMENT C

Misguided Militancy

ALL KINDS OF PEOPLE might write a book about trade unions, but a title like *Militant Trade Unionism** indicates an author of either the extreme left or the extreme right. Dr. Allen is militant intellectual left. He is scholarly, lucid, direct, original, interesting, and, within limits, logical. It is, however, a blinkered logic, the logic of an intelligent man, who, like a subscriber to a religious dogma, has deliberately restricted his vision.

The fundamental market situation, says Dr. Allen, is that labour power must be bought and sold, that employers need to buy it in order to produce and make profits, and that men and women need to sell it in order to subsist. Since employers regard the price of labour power as a cost to be kept down, while employees regard it as an income to be pushed up. there can be no permanent agreement on the price, and conflict is inevitable in a capitalist system. The bargaining power of the many employees, who have only their labour power to offer, is very weak in comparison with that of the few employers, who own all the means of production. Trade unionism exists to redress this imbalance, and its short-term aim should be to exploit the prevailing conditions so as to maximise the benefits obtainable; for instance, the defensive posture of the thirties should be replaced by an aggressive policy more suited to a society in which there is full employment. Unfortunately the primary economic motivation of trade unions is overlain by "socialising influences" which cause them to become responsible—reluctant to call strikes, willing to co-operate with governments, and so on. Trade unions have become effete: they have adopted the values of the system within which they work, their demands "are based on a concept of fairness which is conditioned by what employers, by and large, are prepared to concede," and they glorify compromise and success in achieving the most niggardly advances. Militancy implies going all out to take advantage of the favourable market conditions by playing off employers against one another and making demands on employers according to their ability to pay. It also implies a strengthening of the resolve to secure the long-term aim of trade unionism, which is the alteration of the capitalist system by public acquisition of the means of production.

This whole analysis is founded on a fallacy, stemming from the mental plunge into the relationships of an industrialised society without any prior consideration of the historical origin of those relationships. Unevenness of bargaining power between employers and employees is not a natural phenomenon requiring human correction but an unnatural one requiring human removal. Karl Marx wrote that "the expropriation of the masses of the people from the land forms the basis of the capitalist method of production" (*Das Kapital*). The origin of the working class as we know it was in the time of land enclosures, when men who were self-employed as small farmers, or who could easily become so, were turned into vagrants who must beg for a job at any price. ("The enclosure movement . . . deprived farmers and labourers of their land, cottages and common rights and laid the foundation for the modern working class"—Eric Roll, *A History of Economic Thought.*) It is ownership of land, the first requisite of all production, which by erecting a barrier between men and nature deprives them of the ultimate safeguard of a completely independent livelihood and creates conditions in which the workings of the economy are distorted and wages are depressed. Dr. Allen, like many thinkers of the left, uses the woolly phrase "means of production" to cover both land and capital and thereby protects himself from the need to examine each separately. Ownership of capital alone cannot lead to exploitation; with the establishment of communal rights to land the evil prop of capitalism in the marxist sense would be removed and individual ownership of capital, as of all wealth, could be maintained and encouraged. There is no reason why in a democratic society the ordinary worker should not also be the ordinary investor.

Dr. Allen quotes figures indicating that the share of wages in the national income has remained roughly constant at about 40 per cent since 1880, and that as wages have increased and the working environment has been improved, the propensity to strike has not declined (strikes have grown shorter, but there are more of them).

Trade unionism is a magnificent response to circumstances which should themselves have been challenged; it is because it is no more than a response that all its efforts are vain. Whatever is done is done in a context in which it achieves little materially and nothing psychologically. Frustration and strife will continue until there is a change of system. They would continue under socialism which in any practical form must entail a greater subordination of independence than capitalism.

What is needed is a transfer of all taxation from labour and capital to the rent of land. When by that means equal-

**Militant Trade Unionism.* A Re-Analysis of Industrial Action in an Inflationary Situation, by V. L. Allen. London: Merlin Press, 21s. New York: Humanities Press, $4.50.

SUPPLEMENT C (continued)

ity of rights to nature has been established, free enterprise becomes not only intensely productive but also satisfying for individuals, all of whom enjoy the maximum amount of freedom and opportunity, and the ability, through their choices, to influence economic decisions.

The possibility that trade union militancy could lead to spiralling costs does not worry the author, for he has his own views about the causes of inflation. He admits that wage increases *can* lead to price increases but argues that there are so many other factors that also do so that it is unfair to hold trade unions responsible for inflation. To begin with, earnings matter more than basic wage levels and these are rarely negotiated by trade unions. Changes in import prices, and the growth of monopolies, can cause general price increases and certain uses of labour are inflationary because they increase the ratio of wages to output. Dr. Allen contends, as later did Professor Galbraith, that large business firms become reluctant to engage in price competition and so have to force their products on the public by high-pressure techniques which require more and more salesmen, advertising agents, and so on, whose activities are superfluous and inflationary.

This is a most useful assumption for the author's purpose, for, given increasing concentration in industry, it proves that inflation is inevitable in a modern capitalist system, and that the only way to be rid of inflation is to be rid of capitalism. At one point, Dr. Allen does briefly draw the distinction between money wages and real wages, but he completely fails to understand the crucial importance of money supply in any discussion of inflation.

Production properly includes all processes from the first modification of nature by human agency to the transfer of the finished product to the possession of the consumer, and the distribution workers and even the advertising men play a part in this. If the author and Professor Galbraith are right in their belief that there are too many people engaged in distribution the remedy lies in the restoration of competition. The situation does not stem from the capitalist system but from the dilution of the capitalist system.

For the reader who remains alert there is a certain amount of enchantment in this book. I liked the condemnation of refusal to act under duress (on the grounds that every market situation implies duress), the description of shop-floor rebellions against "official" trade union authority as "informal trade unionism", and the analysis of the status of sterling. The assertion that trade unions should distinguish among employers by seeking to milk the most efficient is another way of saying, tentatively, that company or plant bargaining is in the interest of the workers. Finally, Dr. Allen goes into the recent history of the relationship between governments and trade unions with tedious thoroughness, and his account shows that calls for wage restraint were as prevalent in the late forties as they are today. Incomes policies, apparently, are nothing new.

From: Land and Liberty
March 1968
"Misguided Militancy" - A. J. Carter

LESSON V

EFFECTS OF MATERIAL PROGRESS

Assigned Reading: "Henry George, PROGRESS AND POVERTY (Hogarth abridgment)"
Pages 87 to 115

Purpose:

To analyze the relationship between material progress and land speculation.

Objectives:

To illustrate the effects of material progress on distribution.

To illustrate the effects of land speculation on distribution.

To show the relationship between land speculation and poverty.

Economic Vocabulary:

land speculation
land value
material progress
quantity vs. proportion

Leading Questions: | Instructor's Comments

1. Explain how increasing population effects material progress.

2. Describe the effect that increasing population has upon the productive process and the avenues of distribution.

3. Show how inventions and improvements in any one industry affect other industries.

4. Increases attributed to inventions, improvements in government, etc., are absorbed in greater rents. Evaluate this statement.

5. How does automation affect the demand for land and how does this demand affect rent?

6. How valid is the portrayal of the development of a community as presented in "The Unbounded Savannah"?

7. Which is better for land speculation, a progressive community or a static one? Explain your response. Give the advantages of each.

8. Show the connection, if any, between land speculation and the following:

(a) urban sprawl
(b) unemployment
(c) production
(d) distribution
(e) level of wages

9. "The ownership of land is the fundamental fact that ultimately determines the social, the political, and consequently the intellectual and moral condition of the people." Evaluate this statement.

Chalkboard Suggestions:

1. Effects of Land Speculation

The effects of land speculation are explained by diagrams in the Summary, which can be put on the board.

2. Land Speculation In Your Community

In order to demonstrate that land speculation is an ongoing process, the students are requested to fill in the following information:

Location of Speculation In Your Community	Improvements In Area (last 25 years)	Effects of Improvements on Property	Approximate Increase or Decrease in Property

A little background information can be very helpful concerning increased land values in the area. Ask the students why the land is being held out of use, the effects on the community and the duration of time that elapses before the land speculator sells the property to someone willing to use it.

Supplements:

1. Supplement A - Civilized Society With Land Speculation.

   (a) Does land speculation occur in the manner presented?
   (b) Are there any discrepancies concerning the figures used?

2. Supplement B - Pre-Constitution Land Speculators.

   (a) How has land speculation been a factor in the development of our nation?
   (b) Do history textbooks tend to emphasize or de-emphasize the role of land speculation? Explain.
   (c) Can you cite other examples of the effects that land speculation has had upon the history of this country?

Other Sources:

1. Newspapers

Obtain an article on land speculation and show how it affects the community. Many of these articles usually deal with some type of corruption or unethical transaction.

Culmination:

Pass out Summary of Lesson V.

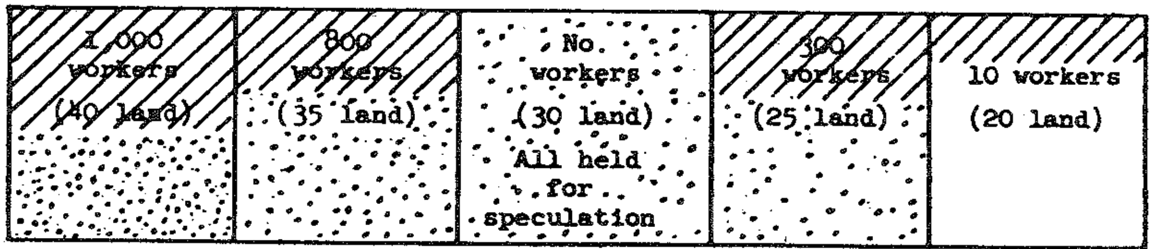
Assigned Reading: "Henry George, PROGRESS AND POVERTY (Hogarth abridgment)" Pages 116 to 131. (Review pages 102 to 110)

Thought Question: Explain the various methods proposed for the cure or alleviation of economic ills.

SUPPLEMENT A

Civilized Society With Land Speculation

Total Prod.	40,000	28,000		7,500	200
Total Rent	20,000	12,000		1,500	0



Total Wages	20,000	16,000		6,000	200
Wages Per Man	20	20	(20	20	20

Here we see that not only has the productivity per worker been increased (due to increased population and improvements in the arts of production), but the total production per area of land has also been increased, due to many workers being concentrated on the same locations. Especially is this true in cities, where there are often thousands of workers to the acre in office buildings and factories.

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

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

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

SUMMARY - ADDING TOTALS

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

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

SUPPLEMENT B

Pre-Constitution Land Speculators

WITH the final shots of the American Revolution echoing in the background, the thirteen colonies realized that a vast, unsettled territory lay beyond the immediate confines of their respective borders. How were the colonies, operating under the Articles of Confederation, to dispose of this huge land mass to interested settlers in an equitable and yet expedient manner? The Ordinance of 1785, considered to be the foundation of the American land system and forerunner of many subsequent land policies in this country and throughout the world, was the response of the Confederation. Some of the best minds in the colonies helped formulate this policy, Thomas Jefferson being the guiding star—as was the case a decade earlier with the writing of the Declaration of Independence. The plan incorporated the basic concepts of the New England and Southern type settlements. The former included the township concept with a specific plan following a prescribed pattern, and the latter concentrated on a freer development without any specific plan for development. (The New England type appears to have been the model for the master plan on zoning in many new communities). No land sales were to commence until all the land had been surveyed, but due to the unexpected length of time required, land sales began sooner than was anticipated. The original plans under the ordinance included encouragement to small holdings but a number of unforeseen problems caused a basic change in this policy. The original sales, mainly at auctions, were disappointing, and a quicker way to dispose of the lands was open to Congressional members. When the granting of lands to large land speculators, especially well known business men, became a reality, one of the most ambitious land speculating schemes in connection with the public domain was attempted, with projected sales of millions of acres.

Under the leadership of Reverend Banasseh Cutler and other veterans of the Revolution, the Newburg petition was presented to Congress, requesting that the government sell more than one million acres to the newly formed Ohio Company. Prior to the presentation of this petition in 1787, such notables as General Parsons and General Putnam were actively engaged in the organization of the Ohio Company. Advertisments appeared in local newspapers and mass meetings were held in order to obtain the necessary finances for the venture. After considerable resistance on the part of Congress, assurances were given that another company would be formed, to be given the same opportunity to purchase land in large purchases.

The Scioto Company was formed and consisted of, according to Cutler, "many of the principal characters of America." This company had the option to purchase three and a half million acres of land, much of it along the Ohio, Mississippi and Illinois Rivers. Due to a decrease in the certificates of indebtedness (the currency used as a reward for service in the Revolution) and the fact that the price was lower than originally stated in the ordinances, an acre was purchased for approximately eight cents.

However, in order for the Ohio Company to gain title to the land, a condition put forth by Congress was the payment of one million dollars in periodic installments. As a result of the ratification of the Constitution in 1789, the worthless securities began to rise in value and the cost of the western lands increased. The Ohio Company never completed the payments and numerous laws were passed to forestall default. The government, the land speculators and the settlers all were doomed to financial disappointment.

The newly formed government learned by experience under the Articles of Confederation the grave danger of disposing of public lands wholesale through private land speculators. As the purchase price increased to two dollars per acre, the government realized that more money could be obtained from smaller settlers than from large companies.

From: Henry George News
March 1968
"Pre-Constitution Land Speculators" -
Stan Rubenstein

LESSON VI

PROPOSED REMEDIES FOR A SICK ECONOMY

Assigned Reading: "Henry George, PROGRESS AND POVERTY (Hogarth abridgment)"
Pages 116 to 131 (Review pages 102 to 110)

Purpose:

To examine the various proposals to extirpate the economic ills of our society.

Objectives:

To show the relationship between land speculation and depressions.

To enumerate the proposed remedies to cure the economic ills.

To elaborate on the role of Keynesian economics today.

To explain the solution of Henry George.

Economic Vocabulary:

common property
private property
government property
land reform
managing the economy
monetary inflation

Leading Questions: | Instructor's Comments

1. Discuss whether or not this country has solved the problem of depressions in our economy.

2. Show how land speculation affects production.

3. What are some of the reasons offered to explain the existence of poverty? Evaluate these reasons.

4. Evaluate the effect that the following have on the elimination of poverty:

(a) economy in government
(b) improved habits of industry and thrift
(c) better education
(d) unionism
(e) co-operatives
(f) governmental direction and interference
(g) general distribution of land

5. Which of the above remedies appears to be the one most relied upon in industrial nations? Why?

6. Which of the above remedies appears to be the one most relied upon in underdeveloped nations? Why?

7. Discuss George's criticism of the above proposals in light of previous discussions.

8. How effective has Keynesian economics been in coping with economic ills in the United States?

9. Discuss the method proposed by Henry George in solving these problems.

Chalkboard Suggestions:

1. Proposed Remedies

Obtain the various remedies proposed from the students and place them in one column on the board. Then head two more columns; one entitled "Degree of Accomplishment" and the other "Other Created Problems". For example, under unionism, a student may state that unions have raised real wages but coercion and strikes may be other created problems.

This may bring to light the entire discussion of remedies and pitfalls.

2. Federal Budget

In order that the class gain an understanding of the amount that is spent by the Federal Government, the following may be useful:

National Defense (Viet Nam 14¢)	43¢
Social Security and Other Trust Funds	20¢
Other Expenditures	13¢
Interest Charges	6¢
Education and Other Major Social Programs	11¢
Veterans Benefits	4¢
International (Foreign Aid)	3¢

Have the students examine the figures and observe the degree to which the problem has been solved and then at what price.

Supplements:

1. Supplement A - Georgism vs. Keynesianism.

   (a) What are the basic differences between George and Keynes?
   (b) How does Keynes analyze depressions?
   (c) Explain why "savings" plays an important part in Keynesian economics.

2. Supplement B - The Great Depression.

   (a) What was the major cause of the depression, according to the first article?
   (b) What was the major cause of the depression, according to the second article?
   (c) Evaluate both articles.

3. Have the students pass in any questions concerning the solution as proposed by George. This will give you an idea of what parts are unclear and a chance over the following weeks to answer specific questions.

DEVOTE APPROXIMATELY 30 MINUTES TOWARDS THE END OF THE SESSION TO THE SOLUTION.

Culmination:

Pass out Summary of Lesson VI.

Assigned Reading: "Henry George, PROGRESS AND POVERTY (Hogarth abridgment)" Pages 145 to 168.

Thought Question: What do you feel should be the rightful basis of property?

SUPPLEMENT A

Georgism vs. Keynesianism

THE average economics student, immersed as he is in the economic precepts of John Maynard Keynes, is indifferent to the straightforward economic principles of Henry George. If pressed the student is likely to dismiss these concepts with amused condescension as naive and simplistic, possibly adequate for a crude agricultural economy but hardly appropriate for the modern industrial state. The seeming sophistication of Keynes' approach appears to many students to be more in tune with today's complex economy.

Keynes' *General Theory of Employment, Interest and Money,* published in 1936, introduced the confusions of "macro-economics" which are plaguing us to this day. Professor Samuelson, a disciple of Keynes, boasts that one cannot argue with the master, since one cannot understand him.

What are some of the essential differences between Georgism and Keynesianism?

Probably most important is that Keynesianism holds that the free and open marketplace cannot regulate the economy; the government must control it. Georgism on the other hand recognizes that just as a man cannot consciously control the beating of his heart and adjust it to changing conditions, so men cannot *deliberately* direct the multitudinous activities of a society's economy and adjust them to changing circumstances.

Secondly, Georgism revolves around the individual whereas Keynesianism focuses on the economy as a whole. George taught the natural laws involved in the production and distribution of wealth by the individual, in cooperation with other individuals, whereas Keynes dealt in aggregates. Although the abstruseness of Keynes' work often makes it difficult to understand exactly what he means, apparently he thought it necessary to determine the behavioral patterns of millions of people principally in order to influence the people's "propensity to consume," and thus control the amount of wealth saved.

He believed that unemployment and poor business might ensue eventually if too much were saved. If too much of the wealth saved were invested in capital goods, a nation's capital might become so great that the amount of wealth produced would outstrip the "effective demand" for it. This reasoning led to the now widely held view that too much saving could be an unstabilizing force and therefore it becomes necessary for the state to control it by initiating appropriate monetary and/or fiscal measures.

As "saving" is so important in Keynes' economics, the obvious question arises, of what does it consist? In the main it is economic rent. By and large it is the landlords who are the savers. This is certainly true in England, Keynes' homeland. In America, where a larger proportion of people own land, a middle class of savers arose, many of whom were not landlords. However if a careful analysis of saving were made it is very likely that most of the saving in America would be found to be economic rent.

As Keynesianism deals with aggregates, its analysis must be primarily in money terms, for one cannot add together tons of steel and bushels of wheat and arrive at meaningful totals. Although Keynes introduced terms such as "labor units" apparently in an attempt to avoid dealing exclusively in monetary terms, actually if one combines diverse economic data one must use a common denominator—money. As Georgism is an individualistic appoach,

SUPPLEMENT A (continued)

its analyses can be and for the most part are in terms of actual wealth, making it much easier to understand the absurdities and complexities which occur when the distribution of the produced wealth is an unjust one.

Lumping economic data and attempting to generalize behavioral patterns may be of value in marketing, particularly to sales organizations in determining their sales campaigns. In my study of this subject I was increasingly impressed that Keynesianism may be considered a sophisticated form of marketing scheme with the consumption and saving habits of people to be controlled, if thought necessary, by the government. From another viewpoint it appears as a cleverly contrived form of socialism parading under the guise of an attempt to rescue private enterprise from oblivion.

For Keynes it was important that all wealth produced be consumed, and his entire theory of economic behavior may be classified as an under-consumption theory. He admitted that his views did not differ substantially from those of the under-consumptionists. It was probably natural for him to take that approach because his book was written during the depression. It appeared to many that the depression was the result of under-consumption because stores and warehouses were loaded with goods which few were buying. Some methods were being sought to get workers to consume more directly and also to get the savings into their hands so that these could also be consumed. To do this Keynes, with tongue in cheek, in a none-too-subtle attack on that "barbarous relic"—gold—advocated burying old bottles filled with banknotes and having them dug up again to relieve unemployment.

Whether Keynes recognized it or not, it appears that what he was attempting in his deprecation of saving, in his cool complacency toward the eventual "euthanasia of the rentier," and in his desire to have the government control the economy, was really to take the economic rent out of the hands of private individuals and spread it around. His method of accomplishing this was by having the government manipulate money and interest rates, spending prodigious amounts of money and juggling taxes. This was patently unsound for it could result in the socialization not only of rent and interest, but also wages, with consequent reduction in the wealth produced and the creation of a socialistic society.

Suffice it to say that Keynesiansim is an attempt to have the government redistribute the wealth produced, utilizing a complex system which ostensibly favors the preservation of private enterprise. Actually it would result in the eventual disappearance of real private enterprise and in a diminution of the wealth produced, creating a super state and reducing the freedom of the individual to a minimum.

From: Henry George News
September 1968
"Georgism vs.
Keynesianism" -
Oscar B. Johannsen

SUPPLEMENT B
(Part I)

The Great Depression

IN 1929 the American gross national product reached a peak six per cent higher than the previous year. Unemployment was running at about 3.2 per cent and everywhere there was an air of optimism and expansion. Within four years a quarter of the nation's labour force was out of work.

The search for the cause of the great depression has since been undertaken at irregular intervals by many students, historians and economists. A recent appraisal by Carl O. Nordling, former Assistant Professor of City Planning at Stockholm, throws some interesting light on an aspect of the events leading up to the sudden panic and economic recession of the 'thirties*.

Professor Nordling makes no claims to being an economist, but he has put forward a few figures that he has stumbled across during the course of research work. It appears that between 1920 and 1926 there was a very rapid increase in the U.S. population; the urban residents increased their numbers by an average of two million a year. As a result of the war there had also developed a housing shortage. More than half a million new units needed to be built every year to keep pace with growing needs and obsolescence. Around 1921, rents and house prices rose rapidly, encouraging new investment. Production rose from 450,000 in 1921 to 940,000 in 1925—no small measure of economic impetus.

According to Professor Nordling, however, production had increased far too rapidly. By 1926 sales of new units were falling, prices were reduced and vacancies began to pile up. In spite of these trends, however, the decrease in production in the following years was relatively slow. The surplus of dwellings in 1927 was in excess of 350,000. At the end of 1929 output had fallen by 250,000 over the previous year. This tremendous drop in production gave rise to a two per cent decline in the work force at the end of 1929—a rate of decline that rapidly increascreased. Alwin H. Hansen wrote: "Probably at no time in our history had we reached as complete a temporary saturation in building construction, including apartment houses, residences, office buildings and other commercial structures, as was the case in the late 'twenties."

The lesson of these historical studies, says Professor Nordling, is that even in a planned economy such as that of Sweden, a similar state of affairs could arise. In the U.S.A. the surplus output was worsened by a rapid decline in population increase with the end of the post-war new family boom. The Professor concedes, however, that such a situation is unlikely to arise on the same scale again. Statistics are now more readily available than they were in the 'thirties and the market is more cautious in its approach.

Unfortunately Professor Nordling did not take his study far enough. What was the real cause of over-production and why was it so harmful? There is little doubt that rapidly rising land values from 1920 onwards encouraged wild land speculation. Those who had invested money in land transactions, often through mortgage facilities, had high hopes of reaping a bonanza. Many people did. Others, however, found themselves with financial burdens that they could not meet. Pure speculators often took chances on second mortgages to raise capital for construction in the hope that things would improve. When it was discovered that not only was it difficult to sell virgin land, but even more difficult to sell vacant houses, the financial difficulties multiplied. The land financing boom had shot through the entire economy, affecting small investors, finance houses, banks, insurance companies and large corporations. The sudden necessary reduction in construction that precipitated the great depression had its own roots in a short-lived land boom, the significance of which had been greatly under-estimated.

Just before the crash in 1929, an article in the *Magazine of Wall Street* said: "Every panic in our country has been preceded by an orgy of land speculation—the culmination of every period of prosperity is a land boom, and then comes panic."

Just as every building has land beneath it, Professor Nordling's housing statistics have land value figures behind them. Under a system of land taxation such dire consequences of rapid expansion are unlikely to occur.

*"Origin of a Depression": *Land Economics*, February, 1967.

From: Land and Liberty
June-July 1967
"The Great Depression-in Search of a Cause"
Peter Rhodes

SUPPLEMENT B
(Part II)

The Great Depression

—In his review of my article "Origin of a Depression" Peter Rhodes advocates that the real cause of over-production was land speculation. He says among other things: "There is little doubt that rapidly rising land values from 1920 onwards encouraged wild land speculation." This is certainly true as far as the great Florida real estate boom of 1925 is concerned. However, the over-building did not only take place in Florida, if at all, it was nation-wide. What about land values in the rest of the United States?

Between 1922 and 1929 the total value of all land increased from 92.8 billion dollars to 113.5 which means an increase of about 3 per cent per annum. Was that a "rapid" growth? The total national wealth grew faster, or 4.0 per cent per annum, and the population grew 1.5 per cent per annum at that time. The value of estimated oil reserves is also included in the value of the land. These reserves almost doubled during the period and their value grew from 12.2 billion in 1922 to 16.8 in 1929. The value of non-farm residential land grew from 15.4 to 24.1 billion or about 6.5 per cent annually.

In this connection one should consider the relation between commuting costs in big cities and the value of land. A commuter living at the edge of a city's built-up area incurs a certain cost in travelling to and from the business centre of the city. Compared with him all those who live closer to the centre have the advantage of being able to save time and money in travelling to the centre. This creates a monopoly of centrally situated land which acquires a certain value higher than the unit value at the rim.

The bigger the cities the more time must be spent in commuting. On the other hand, so much more time appears to be saved and therefore so much more money will be paid for the land monopoly. Suppose cities were circular, the number of inhabitants per acre constant, and central districts small, the total residential land value of a city would then be represented by a cone, the volume of which would be the third power of the radius times a unit value. The total population would then be represented by a cylinder, the volume of which would be the second power of the radius times a constant.

Accordingly, when the urban population increased by some 25 per cent during the 'twenties we should expect the value of urban land to have increased by about 40 per cent, equalling 3.5 per cent per annum—without speculation. Of course, some land speculation apparently occurred in the U.S. during the 'twenties, but the amount was not remarkably large compared with other changes in values and in economic activity in general. When the land speculation did occur on a large scale, as in the case of the Florida boom, it did not develop into a building boom. On the contrary, it developed into the buying and selling of so - called "binders," i.e., a right to buy a lot some time in the future when the land was to be subdivided.

As far as statistical facts from the period can help us, the rise of land values can neither be described as a "wild land speculation" nor as a possible cause of the over-production of dwellings. Then what was the real cause of over-production?. Why did it occur in the 'twenties and never before? The fact is, it had happened before but on a much smaller scale. For a long time there had been an oscillation, with booms and depressions following each other, and the residential construction industry certainly played a part in these swings. One of the reasons for the extreme over-building in the 'twenties was probably the shortage of dwellings that had resulted from the war. Another reason was maybe the post-war American notion of getting rich fast, and of doing everything faster for that matter. The radio and the airplane seemed to have created a new rate of progress, but they had not. A building still lasted for a lifetime.

A system of land taxation or of national ownership of all land would apparently not have saved us from the Great Depression. Nevertheless, I think there are other good reasons for national ownership of certain monopolies such as land monopoly, and this idea should not be discredited just for not being a cure-all.

From: Land and Liberty
November-December 1967
"Land Speculation and the Great Depression"-
Carl O. Nordling

LESSON VII

THE RIGHTFUL BASIS OF PRIVATE PROPERTY

Assigned Reading: "Henry George, PROGRESS AND POVERTY (Hogarth abridgment)"
Pages 145 to 168

Purpose:

To explore the differences between private property in land and all other types of property.

Objectives:

To establish the basis of private property.

To differentiate between private property in land and other types of property.

To evaluate the justification for private property in land.

To relate the relevancy of Locke's theory of property.

To trace the historical basis of land as private and common property.

Economic Vocabulary:

common property
personal property
real estate
unearned increment

Leading Questions: Instructor's Comments

1. What are the current attitudes towards the basis of ownership of property?

2. What are some of the reasons that primitive societies recognized as the basis for the common ownership of land?

3. Why was common land accepted during the feudalistic period?

4. Discuss the relationship between private ownership of land and the growth of liberty.

5. How do socialists view private property?

6. Comment on the validity of the labor theory of ownership.

7. Why is there confusion as to the nature of property?

8. Does private ownership of land conflict with the concept of natural rights? Discuss.

9. Comment on Locke's view of property.

10. Discuss the major points that are made to justify the existence of private property in land.

Chalkboard Suggestions:

1. Have the students give various examples of property and then list these on the board under the heading "Examples of Property". Then head two other columns entitled "Length of Usefulness" and "Necessary Care". It is important that land is included as one of the examples of property so that a comparison can be made with the other forms of property.

The purpose of this exercise is to demonstrate how land differs from all other forms of property. As will be shown, all forms of property, except land, require repairs and care and are of limited usefulness.

2. On the Board - Socialism vs. Georgism

At this point, some may feel that we advocate socialism. Compare both ideologies by contrasting the following:

Proposals Regarding:	Socialism	Georgism
Land	Government ownership, use controlled by government.	Private ownership with due regard for the rights of others; use controlled by individual title holder.
Rent	Collected as part of overall governmental plan.	Collected as sole public revenue for social services.
Capital	Governmental ownership.	Private ownership.
Interest	Confiscated by government.	Retained by private owners of capital.
Labor	Directed by government. "From each according to his abilities".	Free access to natural materials and freedom to choose direction of effort.
Wages	To each according to his wants.	In proportion to contribution to production.
General	Competition and private enterprise to give way to direction by government. No individual rights except as granted by the government.	Private enterprise and competition in the open market - "a free field and no favors". Recognition of the natural rights of the individual.

Although the contrast has been given, it is recommended that the class supply the answers.

Supplements:

1. Supplement A - Property Is Not Theft.

   (a) Comment on Proudhon's assertion that "all property is robbery".
   (b) What is the difference between a legal and a moral sanction?
   (c) How does the author justify land as not being property?

2. Supplement B - Indian Land Ownership

   (a) How did Indians view property in land?
   (b) How did the Europeans view it?
   (c) How do we determine who owns the land?

Culmination:

Pass out Summary of Lesson VII.

Assigned Reading: "Henry George, PROGRESS AND POVERTY (Hogarth abridgment)" Pages 132 to 144.
"Financing Our Urban Needs", nation's cities, March,1969, in full.

Thought Question: Show how the land value tax meets the canons of taxation.

SUPPLEMENT A

Property Is Not Theft

IF, AS PROUDHON asserts, "all property is robbery," if no one can in justice become the possessor of any article, it follows that no man can have any right to the food he eats. If the food is not his *before* he eats it, it cannot be his *after* he has eaten it. From this it would seem that a man has no right to his own body; indeed, we must conclude that a man has as much right to his neighbour's body as to his own.

To deny the right of individual private property, therefore, inevitably lands one in absurdity!

The only sensible way to ascertain what are the rights of property is to look first at the essential facts of our life on this planet. We come into this world possessed of no property whatever and on arrival here we find that one thing only is given to us which is both free and ready-made. This one thing is fresh air.

To get the food, clothing and shelter which are essential if we are to survive, nature bids us work. Now nature is fair. Apart from fresh air nature provides nothing ready made, but she does provide a storehouse of raw material upon which we can work; she provides us with land. Man, therefore, labours upon the land, and is thus able to bring into existence all those tangible material things which we term wealth.

There are now two points which need to be stressed. First, nature is inexhaustible. So that, provided we all have access to natural resources, whatever wealth a man makes by his exertions should not prevent another from making whatever wealth he requires so long as he is prepared to work. Secondly, the wealth we make, and retain as our property, is really of temporary possession only, for from the moment of making any wealth, it begins to change back into original matter. Some forms of wealth will last for but a few hours--fresh milk is one example, others will last for various longer periods. There are very few forms of wealth which will last long enough to pass on to the next generation. The truth is that mankind lives from hand to mouth.

The right to possess private property springs from the fact that the individual has, by his labour, produced it. It is, so to speak, an extension of his personality. As a man belongs to himself, his labour when put into concrete form, belongs to him also.

It has been shown what is the rightful basis of private property. How is it, then, that Proudhon had this idea that property is theft? Probably because in his day as in our own, through long-established custom, were tolerated forms of ownership based upon force and fraud which can only be described as immoral private property. Chattel slavery at once springs to mind as an outstanding form of immoral property. Slavery is, fortunately, now a thing of the past in most parts of the world. But shortly before the American civil war, when slavery was being hotly attacked, one argument in its defence went something like this:

"Here is a widow. All her husband has been able to leave her, after a lifetime of toil, is a half-dozen slaves, all of which he bought with honestly earned money. Would you now free those slaves, and thus put this woman in a condition of penury?"

Arising out of this kind of argument is a vital principle which we should note. It is this:

If you possess some property which has both legal and moral sanction and you exchange it for property which has only legal sanction, you cannot claim that the moral sanction attaching to the property you have disposed of now attaches to the new property you have acquired.

Though chattel slavery is no more, there remain other forms of immoral property in our midst. The chief of these is private property in land, an institution which in its most extreme forms is even worse than chattel slavery.

Land is not wealth. The truth of this is apparent if we consider that if one man, the only inhabitant, owned the whole Earth he would quickly starve to death unless he constantly exerted himself in productive work. A landowner *regarded solely as a landowner*, contributes nothing to production, but takes wealth from others. We are indebted to Ruskin for reminding us that, from an economic point of view, there are only three classes, namely working men, beggarmen and thieves. One can only acquire wealth by work, by gift, or by theft!

Throughout history many famous men have condemned the robbery which private landownership entails. One can go back as far as Moses, who legislated against land being permanently alienated from its original possessors. Because the Mosaic law on the subject was not kept, we find Isaiah thundering against those who joined field to field. In ancient Rome, Tiberius Gracchus fought to the death to revive the Licinian Laws limiting landholding. Coming nearer to our own times, Thomas Spence delivered a lecture to the Newcastle Philosophical Society, in 1775, in which he proposed that the land in each parish should be vested in the parish authorities and rented out to individuals. Thomas Carlyle in his history of the French Revolution condemned the robbery which landownership entailed. In the mid-19th century, Herbert Spencer brilliantly attacked landownership in his *Social Statics*, and compared it with murder.

Both Tolstoy and Cardinal Manning had some biting things

SUPPLEMENT A (continued)

to say on the subject, and in the early 1900s Winston Churchill attacked land monopoly in brilliant speeches which have seldom been equalled, speeches which read as true today as when they were delivered.

Let us, though, forget this cloud of witnesses for the moment, and look simply at the facts for ourselves. Suppose a man takes a fish from the English Channel and calls it his property. There is surely nothing wrong with that. But now suppose a man claims the English Channel itself as his property, and forbids all other people from fishing therein. Would not that be grossly unjust?

But the same arguments must apply to dry land. If a man plants a field with seed and in due time reaps the harvest, that harvest is undoubtedly his private property, for his labour has produced it. But does the act of sowing the seed give him the right to claim that field is his property; for ever?

Every man needs sufficient space on which to build his house. But does the natural right to enough space justify a man in claiming ownership of thousands of acres principally in order to charge his fellow men for the right to live?

Private landownership disinherits the mass of the people from any share in what the Creator has provided for the sustenance of all. Did the Creator intend that men should have to *buy* space on this Earth, from some of their fellow men? Without doubt this is the supreme wrong in our civilisation. We rightly permit private property in the products of labour; this is, in fact, the first step in civilisation, but we wrongly permit private property in the Earth itself.

Proudhon was almost certainly right in thinking that the French aristocrats of his day had not acquired their wealth honestly, but he did not discover how the theft was taking place. Had he lived for another fourteen years he might have stumbled on the truth. For in 1879 was published Henry George's *Progress and Poverty*, a book which made plain the reasons for poverty keeping pace with progress, and the reason why the bulk of the world's wealth finds its way into the hands of comparatively few.

Two kinds of value arise in society. The first is that of tangible, material wealth that is the result of man's conscious efforts. This wealth is rightly private property. The second is what is produced by the efforts of the community as a whole; a value that one can say is *unconsciously* produced, and which is not the result of any one man's work. This second kind of value attaches itself to land and is expressed as the rental value of land; being the result of communal activity it should belong to the community as a whole.

By patient study of the natural physical laws and by working in harmony with them men have invented and perfected the motor-car, the aeroplane, and numerous other marvels of our modern civilisation. It is no less true that there are unchanging moral laws which if we obey them, we prosper. If we disobey them, we suffer.

We must conclude, therefore, that tangible, material wealth, produced by labour from land, is rightly private property and should not be subject to taxation while the rental value of land remains uncollected for communal purposes.

From: Land and Liberty
April - May 1968
"Proudhon Was Wrong - Property Is Not Theft."
W. J. Cadman

SUPPLEMENT B

Indian Land Ownership

THE first quarter of the seventeenth century witnessed a small exodus of settlers from England and the Netherlands to the New World--a territory occupied by numerous Indian nations. The clash of century-old civilizations and cultures brought land tenure into sharp and vivid focus. Isolated from the Roman and feudalistic forms of ownership in Western Europe the American Indian evolved over many generations, a claim to the land based solely on occupancy and usage. The European concept of private ownership introduced by the new settlers caused endless conflict. Eventually something emerged known as the "American way."

Even before the discovery of this continent by Columbus and subsequent explorers, the Indian economy had passed from a purely nomadic food gathering economy to a food producing economy. Formerly they had roamed at will and supplied the necessities by hunting and fishing where they pleased. After they learned to cultivate the soil a transition in land relations naturally resulted in claims of ownership based on labor by the occupants. However Indian life was so strongly bound up in the tribe that no matter how long an individual used the same plot of ground it was never considered to belong to him personally, but to the tribe, and land inheritance therefore accrued only to a tribe or clan--this is the nearest thing we can claim to "common ownership" in the American annals.

Although historical records are incomplete and void of specific data, numerous historians agree that the right of occupancy enabled each tribe to absolute title to, and sovereignty over, a particular section of the country. Each member was an owner by virtue of being a member of that tribe. But ownership could not be transferred outside the tribe. The all-powerful chief acted as proprietor or trustee of all the land though he himself claimed no direct or personal ownership.

In other respects, and especially regarding personal property, the tribes developed independently. Even though the communal idea of land ownership was accepted, there was not universal acceptance of other views regarding property. The six nations of Iroquois seem to have made little distinction between real and personal property and conformed to some of the basic tenets of communism. The Omaha and Pueblo Indians of New Mexico and Arizona followed the same pattern as the Iroquois, in contradistinction to other tribes who adopted the European idea of individual ownership of personal property.

When Columbus was granted ships and men for his historic journey it was agreed that any land embarked upon would belong to the Crown of Spain. So while discovery was made in the name of the sovereign, no land in the west was ever bought by the Spaniards. The French had an agreement with the Indians which carried with it right of ownership, but the Dutch charters required that title was to be acquired through outright purchase.

The sovereign rights of the Indians were not recognized by the British, and English records are silent on the subject of land titles. The right of discovery was their basis of ownership and all land was discovered in the name of the King or Queen. The Crown then transferred it to subordinates, allowing much leeway to local authorities. Methods of purchase, gifts from the Indians, acquisition by seizure, occupancy under long-term leases and "treaties," were all used to establish the claims of the new landowners.

Thus in our historical review we find land tenure and title determined by numerous methods, the foremost being discovery. However, the right of discovery raises several important points — one being that the right of ownership is not based on original discovery but rather the first of the Europeans to discover the New World. If this basis of land ownership is valid, does that mean that any group outside of the Europeans can henceforth claim title based upon discovery? Who owns the land?

From: Henry George News
June 1968
"Indian Land Ownershi
Stan Rubenstein

LESSON VIII

A NEW DIMENSION IN TAXATION

Assigned Reading: "Henry George, PROGRESS AND POVERTY (Hogarth abridgment)" Pages 132 to 144

"Financing Our Urban Needs", nation's cities, March 1969, in full.

Purpose:

To compare the Land Value Tax with other major taxes.

Objectives:

To examine the canons of taxation.

To compare the land value tax with the other major taxes, according to each of the canons.

To examine why the land tax cannot be shifted.

To discuss the several philosophies of taxation.

Economic Vocabulary:

property tax
ability to pay
benefits received

Leading Questions: Instructor's Comments

1. State the various purposes that taxes are used for today, and comment on the validity of each of these purposes.

2. What are the criteria for a good tax?

3. How do the following taxes meet these canons of taxation:

(a) income
(b) corporation
(c) property
(d) land value

4. Why is it difficult to estimate the revenue that can be obtained from a land value tax?

5. What are some other purposes of a land value tax, besides that of revenue?

6. What methods can be employed to separate the value of the land from the value of the improvements?

7. Show how a land value tax cannot be passed on.

8. Show how some of the other taxes can be passed on to the consumer.

9. Which philosophy of taxation has most acceptance? Explain each one. How does the land value tax compare with today's philosophy of taxation?

10. Mention some of the motivating forces that cause governments to use many of our current means of taxation.

11. From "Financing Our Urban Needs" answer the following:

(a) What is the consensus of the authors concerning the property tax?
(b) What is the consensus of the authors concerning the shift to a land tax?
(c) What is the consensus of the authors concerning the conclusion of the Urban Land Institute Study?

Chalkboard Suggestions:

1. Canons of Taxation

Head two columns on the board - one entitled "Canons of Taxation" and the other "Types of Taxes". The first column includes a combination of the canons in the text and others that the students give. The second column includes various types of taxes such as the income, sales, excise, etc. The purpose of this exercise is to evaluate each of the taxes in terms of the canons of taxation. An indication of the validity of the taxes can thus be obtained.

Supplements:

1. Supplement A - How Land Value Taxation Can Be Applied

   (a) According to the chart, which type of property receives the most benefits?
   (b) According to the chart, which type of property receives the least benefits?
   (c) Describe how the land value tax would change the above situations.
   (d) Comment on the feasibility of the application.

2. Supplement B - The Property Tax

   (a) What is the property tax?
   (b) What is the property tax not?
   (c) Why does this type of tax tend to cause confusion?

Culmination:

Pass out Summary of Lesson VIII.

Assigned Reading: "Henry George, PROGRESS AND POVERTY (Hogarth abridgment)" Pages 169 to 175.
"Financing Our Urban Needs", nation's cities, March, 1969, in full.

Thought Question: Explain the effect that a land value tax would have upon the housing problem.

NOTE: "Financing Our Urban Needs" - There are various useful charts and explanations in this booklet that can be useful in dramatizing the practical effects of a tax on land and its relationship to contemporary urban problems.

SUPPLEMENT A

How Land Value Taxation Can Be Applied

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

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

The following chart shows how different properties would be affected:

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

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

WOULD THE TAX BASE BE DESTROYED? The above example assumes that a tax equal to the interest rate on the capitalized value of land will absorb the rent.

But with the full collection of the rent of land, the selling price, or capitalized value of land would tend to disappear. Would we then be destroying the base on which the tax is levied? Not necessarily, for a land value can still be computed based on the gross rent whether or not land has a selling price.

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

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

SUPPLEMENT B

The Property Tax

The property tax plays a role in today's government finance large enough to surprise many observers. The tax takes more from taxpayers than ever before (*per capita*, in *dollars of constant buying power*) – and brings more into local government treasuries, nearly $28 billion this fiscal year; about $140 per capita, or $700 for a family of five on the average (up from $83 and $415 respectively in 1968 dollars in 1965). The outflow of expenditures, however, has risen more rapidly.[1] Such will continue to be the case. In many localities, property-tax yields will not grow so rapidly as local government spending, allowing for grants-in-aid, etc., unless effective property-tax rates keep rising. But even if "adequate" rate increases were possible constitutionally, politically, and economically, they are not assured. Nor would increases be desirable where rates are already as high as in some localities.

Every tax has effects other than those of taking dollars from the taxpayer and giving them to a government treasury. The *adverse nonrevenue effects* can be of more than minor significance, most certainly when the tax rates are at the high levels found in numerous communities today.

For local governments the property tax can compare favorably with alternative revenue sources – within limits. It shows up badly, however, when used as intensively as in a relative few (but important) communities today. Poor administration plagues the tax more generally than is necessary. Achievements in numerous places have demonstrated that administration *can* be improved. And the *structure* of the tax could also be much improved.

What the Property Tax Is—And Is Not

The property tax falls on *people*. "Things" do not, in a meaningful sense, bear tax. The property tax must be thought of as a device to tax people according to their ownership, use, and other ties to property. The tax is almost exclusively a source of revenue for *local* government. In four states only real property is taxed. Most states, however, permit localities to tax tangible personal property – machinery, inventory, furniture, etc. In fact, however, as

SUPPLEMENT B (continued)

a rule only the personal property of businesses and automobiles are taxed. In a few states there is still more than hit-or-miss taxation of intangible personal property – securities and bank balances.

The tax is *not* a levy on individual net wealth. The justification for the tax does not rest upon a presumed adjustment of burden to a person's net worth. The base of the tax is an estimate of the worth of each particular piece of property, chiefly real estate, without regard for any debts against it. In almost all cases *assessment* and *collection* are local functions. Many state constitutions, local charters, and state statutes governing local affairs prescribe maximum tax rates. Their practical effectiveness differs widely.

Although property-tax rates when expressed as a percentage are small, they *apply to capital values* and are often "high." Comparison of property-tax rates with income or sales-tax rates can be deceiving. A 3 per cent property tax equals 33 per cent of the pre-tax income – and half of that after tax – from a property which yields 6 per cent to the owner. An increase of 0.5 per cent would reduce the amount remaining after tax in such a case by about 8 per cent. The property tax differs in essentials from an income tax. Each should be judged according to criteria applicable to it, not to the other.

The tax in most localities is largely a burden on *housing*, but substantial amounts are collected from businesses. When expressed in the same terms as a retail sales tax, the property tax equals 30 per cent of pure occupancy cost of housing in some localities. In a *vital economic sense*, the property tax on real estate is not one tax but two of crucially different natures – a levy on *land* and one on *improvements*. The condemnatory comments which make up most of what follows apply chiefly to the second aspect, that is, the burden on improvements. The tax on pure land values, according to a long and respected – and correct – tradition of economic analysis stands as one of the best possible means of getting local revenue.

A Powerful Argument Favoring Property Taxation

Property taxation deserves support for a reason sometimes slighted by critics: the tax pays for benefits going to those who bear most of the burden. True, we cannot relate the tax paid by any particular renter or howeowner to the benefits of local-government spending which he receives. For the group, however, the case is clearer. The tax which is collected locally and spent locally goes to benefit the people of the area. Thus, payment of the cost of government conforms closely to benefit on an area basis. In this respect is not the property tax result *fairer*, more *equitable*, than in the case of state and federal finances generally? Conclusions may differ; "spillovers" can be cited to require modification of the central point. Yet the basic validity stands.

Equity is not the only relevant criterion. Efficiency in resource allocation is another. The allocation of resources will tend to conform more closely to public preferences when both tax and spending are local than when one is decided at a distance from the other. The argument here applies with less complete validity to very large cities than to smaller communities. Yet its basic merit extends broadly indeed over the country.

From: Property Taxation: Economic Aspects
By: C. Lowell Harriss

LESSON IX

PRACTICAL EFFECTS OF GEORGE'S REMEDY

Assigned Reading: "Henry George, PROGRESS AND POVERTY (Hogarth abridgment)" Pages 169 to 175

"Financing Our Urban Needs", nation's cities, March, 1969, in full.

Purpose:

To explain how the land value tax can affect various aspects of the economy.

Objectives:

To demonstrate the effects of land value taxation on unemployment.

To demonstrate the effects of land value taxation on inflation.

To demonstrate the effects of land value taxation on the housing problem.

To demonstrate the effects of land value taxation on homeowners and farmers.

Economic Vocabulary:

liquidity preference
suburban sprawl

Leading Questions: | Instructor's Comments

1. Explain the effect that a land value tax would have upon the level of wages.

2. In a similar vein, explain the effect it would have upon unemployment.

3. How would the land tax affect the problem of inflation?

4. Explain its effects upon the housing problem, especially the cost of land and the cost of the materials.

5. How does the current property tax encourage slums and urban decay?

6. How would the land value tax affect urban sprawl?

7. Although the system of only taxing land values has never been fully tried by any country, what have been the results where the emphasis has been placed upon a heavier land tax with proportionate reduction in taxes on improvements? Cite examples.

8. How would this tax affect the average homeowner?

9. How would this tax affect the average farmer?

10. Discuss some of the reasons for the difficulty in getting across the concept of land value taxation to the public.

Chalkboard Suggestions:

1. Methods Employed to Alleviate Unemployment, Inflation and the Housing Problem.

List the above problems on the board. Then in another column, obtain from the students the "Current Methods" to solve these problems. In a third column, obtain from the class the "Effectiveness" of these methods. After this has been accomplished, elicit comments on the effects that the land value tax would have upon these three major problems.

Supplements:

1. Supplement A - Purchasing Power of the Dollar

   (a) What are some of the reasons for the depreciation of the dollar?
   (b) What has been the effect on real wages over the past decades?
   (c) Which groups are affected most by the decrease in purchasing power?
   (d) Is the decrease in the purchasing power of the dollar inevitable? Explain.

2. Supplement B - How To Make Slums and Create Barbarians

   (a) How do we create slums?
   (b) How valid is the author's diagnosis of the creation of slums?

Culmination:

Pass out Summary of Lesson IX.

Assigned Reading: "Henry George, PROGRESS AND POVERTY (Hogarth abridgment)" Pages 176 to 220.

Thought Question: Evaluate George's discussion on the Law of Human Progress.

SUPPLEMENT A

Purchasing Power of the Dollar, 1913-1966

Index Numbers: 1957–1959 = 100

Year	As Measured by:		
	Consumer Price Index	Wholesale Price Index	
		All Commodities	Nonfarm Commodities[1]
1913	290.1	261.8	253.2
1914	286.0	268.1	267.4
1915	282.7	263.2	260.4
1916	263.3	213.7	200.8
1917	223.9	155.5	154.3
1918	190.8	139.5	142.7
1919	165.8	131.9	137.2
1920	143.2	118.3	109.8
1921	160.6	187.3	168.9
1922	171.4	189.0	173.0
1923	168.3	181.5	169.2
1924	167.9	186.6	177.3
1925	163.6	176.7	172.4
1926	162.3	182.5	177.0
1927	165.4	191.2	188.3
1928	167.4	188.7	190.8
1929	167.4	191.9	193.4
1930	171.9	211.4	207.9
1931	188.7	250.6	235.8
1932	210.1	280.9	251.9
1933	221.8	277.0	248.8
1934	214.5	243.9	226.2
1935	209.1	228.3	227.3
1936	206.9	226.2	222.7
1937	199.9	211.9	207.9
1938	203.4	232.6	216.9
1939	206.6	237.0	217.4
1940	204.8	232.6	213.7
1941	195.1	209.2	198.8
1942	176.1	185.2	185.5
1943	165.8	177.0	182.8
1944	163.2	175.7	179.9
1945	159.5	172.7	177.6
1946	147.1	151.3	162.1
1947	128.5	123.2	132.8
1948	119.4	113.8	122.4
1949	120.5	119.8	125.0
1950	119.4	115.2	120.6
1951	110.6	103.4	109.3
1952	108.1	106.4	111.9
1953	107.2	107.9	111.0
1954	106.9	107.6	110.6
1955	107.1	107.3	108.2
1956	105.6	104.0	103.6
1957	102.1	101.0	100.8
1958	99.4	99.6	100.5
1959	98.5	99.4	98.7
1960	97.1	99.3	98.7
1961	96.0	99.7	99.2
1962	94.9	99.4	99.2
1963	93.7	99.7	99.3
1964	92.5	99.5	98.8
1965	91.0	97.6	97.6
1966	88.4	94.5	95.5

Note: Purchasing power of the dollar is the reciprocal of the indicated price index

[1] All commodities other than farm products and foods

From: Bureau of Labor Statistics

SUPPLEMENT B

HOW TO MAKE SLUMS AND CREATE BARBARIANS

That slums, or deteriorating areas in the Nation's cities, are breeding places for vice and crime seems to be generally acknowledged. That the spreading slums of America's expanding metropolitan areas may also be the breeding grounds for the vandals that in time will destroy our civilization is a disquieting thought, an idéa by no means so fantastic that one is justified in dismissing it lightly.

Many well-intentioned people, within and without government, are determined that slums must be eradicated from the American scene. However, their way of solving the problem is similar to the method one might apply to cope with a natural disaster such as a hurricane or an earthquake. They rush to do something, the obvious thing of destroying slum structures and building others, as though that procedure must certainly solve the problem. Apparently, the thought that slums are being created faster than they can be destroyed never occurs to such good-hearted but ill-informed citizens. They never stop to ask in a particular instance, How does it happen that this slum exists?

We are convinced that slums are not natural disasters, slums are not like hurricanes or earthquakes except that longer time is required for the results to be seen. Slums are man-made; therefore, they present a problem that must be solved in an altogether different way from that used in coping with the effects of a natural disaster.

When a hurricane or earthquake destroys part of a city, the urgent desirability of immediately clearing the wreckage and rebuilding is obvious. But when a slowly spreading slum has become a blighted area of major proportions, the first step should be to seek the answer to this question: How does it happen that this festering sore of a blighted community exists; or, How are slums created? When this question has been answered, not only can the particular slum probably be removed at minimum cost, but also the development of other slums can be prevented.

How Do We Create Slums?

In order to clarify what might otherwise be obscure, we invite readers to assume that they have become the elected managers of their respective cities. You are the city manager of Yourtown and have almost dictatorial power during your term of office.

First, reminding you that this is fantasy, we shall assume that you have the most evil intentions and that among your boon companions is a friendly devil who is amazingly astute, as devils presumably are. Below are some discussions between you and your devil friend held during the nightly excursions you and he have made around your city in search of more and better ways of achieving evil results.

"My friend," you said, "this is indeed a beautiful, in fact far too lovely a city. Since it was rebuilt after the great fire you kindled so successfully a few years ago, it has been reconstructed with more and better buildings than we had before. Can you not think of a more permanent way of creating a little hell on earth than merely burning a city? True, the effects of that conflagration were striking, but you will have to admit that they haven't lasted very long."

"Indeed," replied the devil, "I have been giving the matter serious consideration: I have a plan that will bring a more lasting hell to the midst of our city. The effects will not be apparent all at once, but they will be far more devastating than any fire. Moreover, a disaster such as fire or flood tends to cultivate the bonds of human sympathy among men, make them considerate and helpful to their fellows; but my scheme will divide our fellow citizens in such a manner that those in the hell we shall devise will, in the course of time, become virtual barbarians prepared to tear down all that our better citizens can build. In short, we can even breed the new barbarians that perhaps will in the end destroy present civilization if we follow my plan."

"You make it all seem so easy. What is this plan?" you asked eagerly.

"Here it is," said the devil, "I shall describe it one step at a time so that you can reflect on its simplicity and effectiveness; all truly great ideas are essentially simple, you know.

"We now are in one of the residential parts of the city, but it is an older section that was not burned a few years ago. The houses are somewhat crowded, but they once were occupied by some of the leading citizens. Do you notice that an occasional building could stand repainting?"

"Yes, of course, but what of that?" you replied.

"Simply this. You arrange with the tax assessors to raise the assessment and therefore the taxes on any building in the city that is repainted, or remodeled, or improved in any way. Moreover, caution them to assess at full value, or more nearly full value, any new building that is constructed. You know that the power to tax is the power to destroy, or in this instance to

SUPPLEMENT B (continued)

inhibit. If this procedure is followed assiduously, and your tax rate is high enough, you soon will observe the following results:

a. Throughout the older sections of the city, buildings will at first not be painted and maintained; then some will become dilapidated; and virtually none will be improved or replaced.

b. Into this area will move the poorer families of the city. They will gravitate to this locality, not because most of them prefer to live in a slum, not because their taste has become so depraved that they could not enjoy life elsewhere, at least not at first; they will come to live in this area because our clever taxing method will prevent or at least limit the remodeling or new construction of housing that these families can afford.

c. Then, given another decade or two, as children are brought up in these depressing surroundings, our city will first have increasing problems of juvenile delinquency; then the former juvenile delinquents will become competent criminals and racketeers; and everyone can see that we need only enough of these individuals to overturn civilization itself."

Encouraging Land Speculation in Slum Areas

But you were not convinced that the friendly devil's plan was as excellent as he supposed. You asked, "Is that all there is to your masterpiece of evil calculation? I confess it has some interesting and perhaps effective features, but is that all?"

"By no means," friend devil replied. "In addition to taxing all improvements heavily, you must reduce the taxes on land values, especially on land values in the slum areas. As the original buildings deteriorate and the neighborhood becomes a slum, encourage the landlords to apply for reductions in their taxes. Instruct the city assessor to disregard actual selling prices of land in the slum area and assume that the assessed value of the land should decrease as the buildings on it deteriorate. Thus you will encourage the slumlords to hold their properties for speculation on the future growth of the city. You will combine the maximum of discouragement to improvement with the minimum of discouragement to land speculation. Even when buildings are condemned and closed as firetraps or are in danger of collapsing, they will not be replaced. The tax remaining will be so small that the owner will not be forced to sell to someone who might build. The owner, unless he is pressed for funds (and professional slumlords usually are not), will simply wait until the further growth of the city makes it practicable for someone to pay a price that will yield a tremendous profit. How large such gains may be can be seen by reference to the prices being paid today for land held by slumlords in areas to be redeveloped."

To Expedite Slum-Making

"I am nearly convinced that you have a useful scheme that will serve our evil purposes well," you said. "However, if you really put your mind to it, could you think of some improvements in it; perhaps ways of extending slum areas more widely or bringing the anticipated results more quickly?"

"Well," replied the devil, "I do know of a subtle modification of this scheme that has produced gratifying results. In parts of England, the principles I have mentioned have been carried to their logical extension. When a property becomes so dilapidated that it is no longer used, or even when the slumlord simply chooses not to rent it, taxes are canceled altogether. Thus there is nothing to prevent the speculator from holding property off the market indefinitely. It is most encouraging to slumlords not to have that nagging annual payment, however small it might be. My friends abroad tell me that England has some of the most impressive slums anywhere to be found. Vast areas of London and the industrial midlands are such hells on earth that they put the subterranean master of our profession to shame. Think of it, he is the monarch of all that perpetual fire and brimstone, yet he contrives only a brief sizzle as another soul enters his dominion, whereas the tax system and slumlords in England have developed a hell that lasts for a man's whole lifetime, corrupts his children, and damns his earthly hopes. There is an achievement worthy of emulation by all who would foster evil wholesale instead of piddling around in the retail business of tempting individual souls to their destruction."

"Then why not try the same scheme here?" you asked.

Friend devil replied with some dignity, "I think you know me well enough to realize that neither lack of boldness nor any fondness for humankind have impelled me to suggest no more than I have. We must remember that you will be coming up for reelection in a few years. Anything that the public is accustomed to is accepted as right and just. Already your city is applying my scheme in substantial part; you need only tighten up a bit here and there, urge the assessors to seek more vigilantly for all improvements such as modern bathrooms in existing tenements, etc. If you introduced a completely new idea such as that applied in England, you might encounter resistance, because all new ideas are suspect as you know."

Advantages of Applying an Opposite Plan

But you still were not completely satisfied; consequently, you questioned further; "Good friend devil, or rather friend devil (I do not mean to insult you), I see that you are right and I begin to understand how it happens that nearly all cities in the United States have their steadily growing slums. The scheme as you outline it is indeed convincing; but I wonder, do you have any further proof of its soundness than the obvious results of experience with it to date?"

"Yes," the devil replied, "I can offer the most convincing proof. In many cities of the world the opposite of my scheme has been applied. All improvements in those cities are exempt from taxation, and only the land values are taxed for all community expenditures. The results have been as follows:

1. Such cities have no slums worthy of the name.
2. Even the poorer citizens have no difficulty in renting adequate housing.
3. New construction is greatly encouraged; in fact, those cities, in Australia for example, seem to enjoy a never-ending progression of building and remodeling.
4. Industries come to those cities, because companies are taxed only on the value of the land they occupy (this value of course largely reflects the services provided by a city) rather than on their plants, equipment and subsequent increase of those facilities.
5. Surprisingly enough, in many such cities where

SUPPLEMENT B (continued)

the landlords were the only citizens entitled to vote on land-value taxation, they voted for it. Although their taxes as owners of land were increased, the great benefit to the community of this method of taxation so increased the demand for land in the community that land values also rose."

"There is the proof that my scheme is sound," the devil insisted. "Apply it, and we get the slum hells we want; reverse it, and the slums are eliminated in a few short years at no cost to the community. What more proof do you need? Just keep the system we now have and accentuate its most effective features as I have suggested. Then you can rest assured that slum hells will keep spreading more rapidly than redevelopment programs can remove them."

To Create More Barbarians

"The arguments you have offered and the all too obvious developments in most cities of the world offer convincing support for your basic theory, Friend devil," you said, "I am interested in your reference to the influence of slums on the human beings who are born and brought up in them. That in the long run almost any person in those circumstances might become a barbarian willing to join in destruction of our civilization seems clear. However, such indoctrination surely is a slow process, and many, far too many escape from their slum environment. They see all around them opportunities to better themselves. Even if they have never read the stories of Horatio Alger, whose poor boys always found the stepping stones to wealth and power, they have seen for themselves in past decades that many of the nearly destitute immigrants who crowded American slums several decades ago have achieved success."

"Few of those immigrants who came about the turn of the century are slum dwellers today. Haven't the slums in many instances provided the incentive for beginning at the bottom of the economic ladder, cultivating useful work habits, and thus through self discipline succeeding, whereas many brought up in easier surroundings have failed to develop their latent abilities? In short, are slums alone as efficient a means of creating barbarians as you can devise?"

"You have put your finger on what used to be a weak point in my suggestion," the devil replied. "However, in recent decades I have found improved means of creating barbarians. You may think I am somewhat immodest in claiming the new method as my own. Actually, the new method was devised by people of good will anxious to prevent exploitation of their fellow men, aided by labor unions serving their selfish interests and by politicians seeking votes. You remember the proverb, 'The road to Hell is paved with good intentions.' This is part of my, or at least my master's grand design. Through the application of that principle we already are achieving unprecedented success in creating barbarians."

"Friend devil, you speak in generalities. Precisely how do you propose to apply the principle that unwisely guided good intentions are the paving stones of earthly hells?"

"You misunderstand me. I am not speaking of proposals for future action. I am referring to laws already in effect. Your laws, both State and Federal, prohibiting employment of relatively unskilled people are especially effective."

"Surely you are joking; laws prohibiting employment would never be accepted by the people of the United States. I never heard of such a law in all my life."

"Now," the devil replied, "you are being naive. Such laws are not entitled 'Measures to Prohibit Gainful Employment,' nor do they begin with a whereas clause pointing out that they are intended to prevent people from obtaining jobs. The laws that actually prohibit such employment are under more euphonious titles such as 'Fair Labor Standards Act,' or 'A Law to Establish Minimum Wages;' and their whereas clauses may refer to the desirability of giving every person a 'living wage,' although a youth living at home and seeking his on-the-job training for life has need for much less income than does an adult living alone or another adult with family responsibilities."

The devil continued, "A recent study* has shown that the percentage of youths unemployed has increased markedly as higher minimum wages have been estab-

* Yale Brozen, Professor of Business Economics, Graduate School of Business, University of Chicago, Chicago, Illinois, in *The Effects of Statutory Minimum Wage Increases on Teen-Age Unemployment*, presented at the annual Mont Pelerin Society meeting, Aviemore, Scotland, September 3, 1968.

SUPPLEMENT B (continued)

lished. In effect, the law says to every youth, 'You shall have no job unless the results of your labor are worth more to some employer than $1.60 per hour. Such effective prohibition against gainful employment for many provides just the opportunity we desire. You know that all of us devils are skilled in finding work, our work, for idle hands. This is our specialty. Just give us such opportunities and we create barbarians. Proof that our efforts are successful already is apparent in the burned and looted areas of many cities.

"Slums always have been depressing places, but as long as there was hope for a way out, as long as no one was denied the opportunity to reach the first step on the ladder to success, only a small minority became barbarians. Today the situation is different for millions who are denied the basic opportunity, a job in which to learn useful work habits with the further upward steps of the ladder clearly in view. Now millions have no basis for hope. Denied the chance to earn the attractive products of a seemingly affluent society, frustration becomes the desperation of those who believe that they have nothing to lose and possibly some loot to gain if they join the modern barbarians. Given enough such men, no civilized society can survive."

"The barbarians who finally sacked Rome as that civilization declined and fell came from without. Much more efficient in destroying Western Civilization will be the barbarians within. At the rate slums are being made and barbarians are being created today, we who expect to reap the hellish harvest of social revolution apparently have not long to wait. We shall have hell on earth on a scale never heretofore witnessed by the human race. Stupidity plus misguided good intentions will accomplish our work, leaving to us only the enjoyment of it."

"And now," said the devil, "you must excuse me. I must not shirk my task of providing work for idle hands."

From: "Economic Education Bulletin"
American Institute for Economic Research
October, 1968

LESSON X

THE LAW OF HUMAN PROGRESS

Assigned Reading: "Henry George, PROGRESS AND POVERTY (Hogarth abridgment)"
Pages 176 to 220

Purpose:

To set forth the law of human progress and its ramifications.

Objectives:

To examine the various explanations for the progress of civilizations.

To show that association in equality is the law of human progress.

To elaborate on the present characteristics of our declining civilization.

To explore the meaning of liberty and justice.

To review the highlights of the course.

Economic Vocabulary:

freedom of opportunity
association in equality

Leading Questions: | **Instructor's Comments**

1. Discuss the various theories offered to explain the advance of civilization and societies.

2. What forces counteract the geographical barriers to association?

3. Show how cooperation in mental power has made great strides in recent years.

4. Discuss George's characteristics of our declining civilization.

5. What has been the relationship between equality and the advance of society?

6. Distinguish between political and economic liberty.

7. According to George, what is the primary cause for the decline of civilization?

8. How may modern civilization decline?

Review:

Review the major highlights of the course.

(a) Factors of production.
(b) Laws of distribution.
(c) Role of land speculation.
(d) Use of land value taxation.
(e) Effects of the proposal.

Climax:

Read excerpts from "The Call of Liberty". Some of the passages can be extremely moving. Discuss some of the major points.

Supplements:

1. Supplement A - Readings from text.

   Two paragraphs which are very current are:

   (a) "This transformation.........political decline" on page 202.
   (b) "Where this course...........declining civilization" on page 203.

   How relevant are both these paragraphs today?
   George has been referred to as the "prophet of San Francisco". Can one forecast the trend of events?

2. Supplement B - The Significance of Henry George

   (a) What is George's basic thesis?
   (b) How does it differ from modern palliatives?
   (c) What is George's remedy?
   (d) How applicable is the remedy to our modern industrial world?

3. Supplement C - On Human Rights

   (a) What are rights and duties?
   (b) How does the United Nations Charter use "rights" in several different senses?
   (c) Despotism begins its chronology from the time people stop thinking of compulsion from above as evil and begin to regard it as normal. Comment.

Culmination:

Pass out Summary of Lesson X.

Encourage students to continue their studies i.e. further courses.

Encourage students to become active (Your Director should be able to give you suggestions in this connection).

SUPPLEMENT B (continued)

reflected in the value of the land. Both cannot occupy the more favourable site, yet clearly if all men have an equal right to life they have also equal right to land. If the first pays a site rent to the community for the privilege which he holds, justice is done. Further, under George's proposal, if the first man worked harder or gave better service, the additional income thus gained would not be subject to penal taxation — it would be left entirely to him. (The actual mechanics of this is beyond the scope of the present article).

Today, with all the apparatus of the Welfare State, with pensions, "free" medicine, and the rest, George's thesis may seem somewhat strange. It is important to realise, however, that George did not regard the abolition of poverty simply as an end in itself, but rather as a means to achieving greater liberty. George maintained that with man's material wants satisfied readily so as to obviate anxiety on this score (and who can unambiguously say that this is so for most people in these days of "affluence," inflation, and economic uncertainty?), then man's intellectual, cultural, and higher powers could blossom forth more abundantly. Be this as it may, however, the crucial point was George's concern for individual freedom, his profound respect for personality. The Welfare State might artificially mitigate the inequitable distribution of wealth, but if this meant that the individual became a mere cog in the machine of the State's bureaucratic apparatus, or became submerged in a sea of universal benevolence (however well-intentioned), then for George the price was too high. In any case the fundamental wrong had not been rectified, the two-fold violation of the commandment, "thou shalt not steal," had not been ended; that is, the appropriation by privileged individuals of what ethically belonged to the community, i.e. the land values created and sustained by the presence of the community, and in addition (and as a consequence) the taxation by the State of individuals' effort and exertion, in the form of arbitrary imposts which bore no systematic relation to the benefits received by the individual from the community.

Radical Remedy Needed

Like "leftists," Henry George was convinced that there was something radically wrong with the social order, as shown by symptoms such as slums, hard toil in an age of labour-saving devices, and periodic economic crises. He insisted that such social evils require a radical remedy and not bigger Government doles or palliatives that did not upset the status quo, especially as regards monopoly and privilege. Yet in common with certain people of "right-wing" persuasions, George strenuously upheld individual liberty and respect for the individual's rights. But in this he was opposed to unbridled individualism; he asserted that freedom must be contingent on the equal freedom of others. Thus he could be contrasted with many self-styled advocates of free enterprise who really are seeking securer privileges; the efforts of certain industrialists to obtain higher tariffs (i.e., Government intervention) is a good illustration. Thus it is that George's supporters are drawn from a wide range of political loyalties, and by the same token it comes to pass that both Tories and Communists have at times been among his bitterest enemies. Many of George's supporters would thus claim that his philosophy contains a synthesis of the best of "left" and "right" wing elements.

The Welfare State apart, there are still, of course, many countries in the world where extremes of riches and poverty are patent, notably Asia and Latin America. For a substantial percentage of the world's population, the extraction in rent of something like half of their produce is a customary feature of life. The basic nature of the land question is apparent here. The importance of this question arises in a special way with schemes of technical aid such as the Colombo Plan. When such aid, intended to raise the living standards of the people in the under-developed countries, stimulates productivity, then as surely as night follows day, landholders can charge more for the privilege of gaining access to land, and the gap between the haves and have-nots becomes accentuated. This happened for example in Italy, where in the post-war years the United States of America poured millions of dollars into that country.

Recent history provides many instances where inequitable land tenure has been a major cause of warfare and bloodshed. In China, for instance, it is universally agreed that the Nationalists' failure to deal with this issue was largely responsible for the Chinese Civil War. The policy of Sun Yat-Sen (a disciple of Henry George) "equal rights to the use of the land" had become an empty party slogan, and it was inevitable that Mao Tse-tung's most enthusiastic supporters were the 50 million peasants who had previously turned over a large portion of their produce to privileged landlords.

Applicability to Industrial Society

At first sight the practicability of George's doctrines to a complex industrial society with its highly organised commercial power, may not seem obvious. When, however, it is realised that privileged individuals can legally charge others a premium for living and working on that land, then the relevance of the land question becomes clearer. Again, the supply of land is virtually fixed so a monopoly in land (and hence in speculative land rents) is far more potent than a monopoly in commodities for which substitutes may usually be found. George, of course, recognised that there were other important social problems besides the land question, but maintained that the solution of the latter was he essential prerequisite for any social progress. His prediction that disparity in the distribution of wealth would persist and increase with technological progress is borne out by recent admissions that in his own country, one in every five of the nation's families is either living in or verging on poverty, and this at the peak of the most prosperous era in American history.

Among the advantages claimed by George for his system was the inference that productivity would be stimulated and living standards raised, because there would be steadily reduced taxation of effort and consumption, as represented by income, sales, and tariff taxes, which discourage production and tend to produce scarcity. The major source of revenue would be payment of a site rent to the Government for the privilege of exclusive occupancy of a particular site, a site rent which reflects accurately the advantages of occupying that site. Government would be simplified, for a levy on site values is simple to administer, easy to collect, and virtually impossible to avoid. By contrast, taxes on goods and earnings are complicated to administer, difficult to collect, and at times relatively easy to avoid.

Would It Be Enough?

It is sometimes asked whether the revenue from site values would be sufficient to defray the costs of Government. George's supporters believe that in normal circumstances (excluding hot end cold wars) it would. However, be that as it may, it can be strongly maintained that many Government functions would become redundant and the cost of

SUPPLEMENT B (continued)

Government greatly reduced. For example, the staff required for collecting revenue would be greatly reduced, and so would the offices and equipment for this purpose. Again, many Government commitments arising from poverty and economic distress would, it is maintained, no longer be necessary.

One big advantage claimed is the elimination of land speculation. As a result of this at present a considerable amount of capital and savings must be used to gain access to a site before industry and commerce can begin operating. The removal of this obstacle to production would clearly have far-reaching consequences in stimulating employment and expanding production.

A natural question is whether George's system has ever been put into practice. To a limited extent and in varying ways it has been implemented in at least 20 countries including the United States, Denmark, Australia, New Zealand, Brazil and Canada, particularly in the field of municipal rating. However, it must be remembered that implementation is difficult because of opposition from privileged groups. The reduction or abolition of tariffs and other restrictions on international trade is, of course, part of George's programme, though not exclusively his.

Effectiveness Of System

As an illustration of the effectiveness of George's system, reference may be made to comparisons in the field of municipal rating in Australia between municipalities using site value rating (George's system), i.e., drawing all revenue from land values and exempting improvements, and those using the net annual value system, in which revenue is drawn chiefly from improvements. The Melbourne Land Values Research Group has conclusively demonstrated that districts with site value rating show substantially more than twice the building activity per acre available for building compared with corresponding districts where the other system operates.

While George was quite certain that his social philosophy would promote economic betterment, he was more concerned with the fact that it accorded with ethical principles which all but moral nihilists recognise. His normative approach is often contrasted (sometimes disparagingly) with the descriptive approach of many economists and sociologists. Yet contemporary economics finds itself as helpless as classical economy in the face of the economic evils with which civilization is confronted. It has acquired a more "scientific" vocabulary than the syllogistic terminology of the early nineteenth century, its graphs and statistics are imposing and often complicated, but there still are (should not one add that on a world scale they are increasing?) poverty, misery, and economic unrest. It is often claimed that economics must develop more in the quantitative direction. But to this one may reply that should such a development sacrifice values and standards to statistics and graphs, and become so engrossed with figures as to blind itself to symptoms and cures, then a polite scepticism becomes inevitable.

At a time when a reconciliation is being sought between personal liberty and social justice, between individual rights and social obligations, the social philosophy of Henry George, which claims to provide a synthesis between the conflicting claims of libertarianism and equalitarianism, would well repay attention.

From: Progress
September 1968
"The Significance of Henry George"

SUPPLEMENT C

On Human Rights

THERE is still some magic in the words the Rights of Man; it is as if they awaken a deep instinct as well as provoke discussion. Perhaps this is the reason why not so very long ago a movement for reform, based on this appeal, could cross frontiers and continents and win ardent support among millions of working men and women as well as among circles of profound thinkers. The atmosphere was unprecedented. William Hazlitt, looking back from 1814 after the movement had sunk to mere power-politics, recalls the outset as "that springtime of the world when France called her children to partake her equal blessings beneath her laughing skies; when the stranger was met in all her villages with festive songs in celebration of a new era; and when, to the retired student, the prospects of human happiness were seen ascending, like the steps of Jacob's ladder, in never-ending succession."

It is strange to us in the atmosphere of today, to imagine that a statement of government policy could arouse such feelings. But the American Declaration of Independence, 1776, and the French Declaration of the Rights of Man and of Citizens, 1789, were not election addresses. Despite imperfections such as "all men are created equal," these documents were the culmination of a century of active thought, known to historians as "the Age of Common Sense," or "the Age of Reason." After the English Glorious Revolution, 1689, "the eternal spirit of the chainless mind" had been awakened. The ideas of John Locke, that government itself has no rights, only the duty of protecting individual rights, began to spread like slow fire at the roots of paternalism. Carried to America and back again to Europe on two great occasions it had brought into public affairs not professional politicians but amateurs of courage and conviction, not yet corrupted by power. The ringing phrases of these two manifestos breathe the spirit that resists government pretensions, that scorns patronage, that begs nothing from public funds; a spirit based on the conviction that "the sole causes of public misfortunes and corruptions of government" are not defects in the planned economy or welfare regulations but "ignorance, neglect, or contempt of human rights." They were uncompromising appeals from man to man, not from organisations to the timid who seek the shelter of organisations. Said Benjamin Franklin: "They that can give up essential liberty to obtain a little temporary safety deserve neither liberty nor safety."

It is like a cold douche to turn from these declarations to the text of the Universal Declaration of Human Rights —later referred to as the Charter—originally approved by the United Nations Assembly at Paris, 10th December, 1948, and now, in this officially-appointed Human Rights Year, due to be celebrated and reviewed at a meeting of delegates in Teheran, December 1968. All who are genuinely concerned for right and justice must hope that the delegates to Teheran will forget political considerations in favour of universal considerations and revise the Charter on this basis. To do so would transform the document into a challenge to world opinion and evoke discussion on a scale it has so far failed to arouse. Even when the Charter was first issued there was comparatively little notice in the newspapers, and some more serious organs pointed to its defects. The *Church Times* remarked: "It makes claims and enunciates dogmas which are by no means self-evident to the human mind or human conscience. What is the intellectual basis for its assertions?" Mrs. Eleanor Roosevelt, Chairman of the Human Rights Commission, stated in a foreword to the text: "It is not a perfect document . . . there must be a considerable number of compromises . . . but a beginning had to be made."

It is unfortunate that the Charter does not begin with a clear definition of universal human rights, *i.e.*, inherent to every person at any time and in any place. This might have saved the sponsors from confounding rights and duties in so many of the Articles. This not only confuses the reader; it blurs perception of both rights and duties. We all acknowledge moral obligations, duties to society; but these would have been much clearer if tabulated separately. Moreover, in such a statement it is necessary to use words only in their essential, unmistakeable meaning. In the preamble the Charter refers to "freedom from fear and want" and to "fundamental freedoms." But freedom, the state of being exempt from outward restrictions or compulsions, has no direct reference to human emotions. Open the prison door and the man is free, but he is still subject to natural fear and the need to supply his requirements by his own efforts. Misuse of the word freedom, in this context, deflects enquiry from possible restrictions or compulsions leading to unnatural fear and unnatural privation. Freedom is a universal principle with infinite application; to pluralise such an abstraction is absurd and misleading.

"The natural liberty of man," says John Locke, "is to have only the law of nature as his rule." All are born equally free to use the natural resources of the earth for their support, and to exert their natural powers, mental and physical, as seems best to themselves within the limits that nature imposes. This equal freedom of natural opportunity is the basis of all human rights, and one which any intelligent person can understand. If the sponsors of the Charter had made this clear at the outset the document might have been more convincing, and have attracted more attention. A right is a negative conception. If an alleged right conflicts with another, one or both must be spurious. If an alleged right requires someone to

SUPPLEMENT C (continued)

do something, it is spurious. No right can be created by government; human rights are anterior to all government.

The first sentence of Article 1 of the Charter: "All human beings are born free and equal in dignity and rights," clearly accords with this definitition, and so with a number of subsequent passages, *e.g.*: "Everyone has the right to life, liberty and security of person." "No one shall be subjected to arbitrary interference with his privacy, family, home or correspondence." "Everyone has the right to own property." "No one shall be arbitrarily deprived of his property." "No one may be compelled to belong to an association." "Everyone has the right to work." Assuming that property is understood in its universal sense, all the foregoing accord with the negative conception of rights and with the definition, in every reputable dictionary, of freedom as "the state or condition of being free."

In other parts of the Charter, however, we find so many passages in conflict with the above that an inattentive reader might forget these quoted statements as mere verbal formalities. We are told, for example: "Everyone has the right to social security." "Everyone has the right to favourable conditions of work and to protection against unemployment." "Everyone has the right to equal pay for equal work." and to "just and favourable remuneration . . . supplemented, if necessary, by other means of social protection." "Everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay." "Everyone has the right to a standard of living adequate for the well-being of himself and his family, including food, clothing, housing," etc. "Everyone has the right to education." "Education shall be compulsory" and directed to purposes the Charter prescribes. "In the exercise of his rights and freedoms everyone shall be subject only to such limitations as are determined for the purpose of securing the general welfare in a democratic society."

As we are also told that "education shall be free" and that "parents have a prior claim to decide their children's education," the clauses on education are contradictory; but one can see, on examination, that none of the above statements conforms to a universal human right. They are all statements of claims for things which everybody has the alleged right to compel everybody to provide. If A has the right to well-paid employment with paid holidays, B must necessarily provide it; but if B has the same right, then A must also provide B with the same. This is not a statement of universal human rights in the enjoyment of which all might freely provide for themselves; it is a code of regulations for a dependent world. Such statements might have been drawn up by a committee of well-meaning persons, who, taking slavery for granted, were concerned to ensure that the slaves were well treated, allowing the inspector, however, wide discretion in interpreting what shall be "reasonable," "adequate," conducive to the "general welfare," etc. All is based on the acceptance of compulsion as a necessary and permanent element in human rights.

Totalitarian regimes find it necessary to set up prison camps in which those who seek truth independently, despite the influences of state education, prevailing opinion, and authority, are subjected to brain washing designed to restore them to what is considered a normal condition of mind. In a letter recently smuggled out, one victim, an historian who had survived the corrective process, observes: "Despotism begin its chronology from the time people stop thinking of compulsion from above as evil, and begin to regard it as normal."

The most significant aspect of the Charter is its omissions. Almost all controversy today is concerned with what are called economic matters: question of inflation and trade, taxation, and the prohibitive cost of land for people to live on and work on. And it is conducted with so much expertise, jargon and metaphor that it is a kind of closed circuit from which the common sense of ordinary people is excluded, although they are well aware that their interests are at stake, and when the promised miracles do not emerge they feel sullen discontent. Here, if anywhere, a clear lead on their rights is required. Yet on these subjects the Charter has nothing to say, leaving the public to infer that no human rights are involved. For all the Charter has to declare, any ruling authority, by debasing the currency, might reduce everyone whose means are only in the form of money to destitution; by putting a complete embargo upon the exchange of goods and services it could reduce its subjects to the lowest scale of human existence; by taxing all their earnings it could confiscate all their property; by denying them the use of the earth it could deprive them of life itself.

The difficulties of persuading many delegates to cooperate in drawing up this Charter reflects credit on those who took the lead and it would be unfair to condemn the document for minor shortcomings. But when the omissions and inconsistencies allow violations of the most important human rights, the Charter requires drastic revision if the original purpose is to be realised. Many persons are capable of a surprising degree of self-delusion when faced with awkward realities, but the patrons and sponsors of this Charter occupy the highest positions in Church and State. If they delude themselves they delude millions. Intellectual integrity is a moral obligation; it could not be more so than in framing such a declaration.

From: Land and Liberty
November 1968
"On Human Rights"-
Frank Dupuis

THE PROBLEM

Lesson I

"He would have been a rash man who, when Augustus was changing the Rome of brick to the Rome of marble, when wealth was augmenting and magnificence increasing, when victorious legions were extending the frontier, when manners were becoming more refined, language more polished, and literature rising to higher splendors -- he would have been a rash man who then would have said that Rome was entering her decline. Yet such was the case. And whoever will look may see that though our civilization is apparently advancing with greater rapidity than ever, the same cause which turned Roman progress into retrogression is operating now .....

There is a vague but general feeling of disappointment; an increased bitterness among the working classes; a widespread feeling of unrest and brooding revolution. If this were accompanied by a definite idea of how relief is to be obtained, it would be a hopeful sign; but it is not.

There is no mistaking it -- the very foundations of society are being sapped before our eyes, while we ask, how is it possible that a civilization such as this, with its railroads, and daily newspapers, and electric telegraphs, should ever be destroyed? While literature breathes but the belief that we have been, are, and for the future must be, leaving the savage state further and further behind us, there are indications that we are actually turning back again toward barbarism .....

Whence shall come the new barbarians? Go through the squalid quarters of great cities, and you may see, even now, their gathering hordes!"

This prophetic warning, so uncannily descriptive of our nation's current peril, was written nearly a hundred years ago by the American economist and social philosopher, Henry George. George was not content, however, merely to predict doom; he also undertook to show how it can be averted. This course will be primarily devoted to the study of his analysis and proposals for constructive action. It is offered as a public service in the belief that although the time is late, an enlightened citizenry can yet reverse the direction of our national life, and save America from the fate of Rome.

Born in 1839 in Philadelphia, George went to sea at the age of sixteen, and later learned to set type. He tried his hand as a prospector at the tail end of the California gold rush, and remained in California for twenty-two years, working as a printer and eventually as a newspaper reporter and editor. During most of this period his life was a constant struggle against poverty, even though he managed to achieve a degree of local influence and reputation.

As George witnessed the swift rise of population and productivity on the West Coast, he pondered the ironic fact that concurrently with this rapid growth most people found it ever more difficult to make a living. He finally set himself the task of resolving this enigma, recognizing that it was in no wise unique to California -- that California was a sort of microcosm in which one could watch at that time the telescoped unfolding of universal social and economic processes. Like Adam Smith and most other pioneers in the field, George had no formal training in political economy, but schooled himself through independent reading and observation. His study bore fruit in PROGRESS AND POVERTY, a work which many feel has never been equalled for sustained logical development and literary power. Published in 1879, this book, the best-selling economic treatise of all time, was soon recognized as a classic, and made its author famous. The rest of his life was spent in writing other books, lecturing, and traveling to disseminate his ideas abroad. He was twice induced to run for mayor of New York City. Many historians believe that on the first occasion (in which he outpolled Theodore Roosevelt, also a candidate for the mayoralty) he actually received a plurality of the votes cast but was "counted out" by the Tammany machine.

Despite the obvious contemporary pertinence of George's terrifying vision of how modern civilization may decline, since it is generally acknowledged that we in the United States live today in an affluent society, the question is sometimes raised as to whether his inquiry into poverty has relevance to present conditions in this country. True, we hear a great deal about poverty, and the federal government has embarked upon massive and costly programs to relieve it. Yet it does not seem to be a general feature of the economy as a whole, but rather something which exists among people outside the mainstream -- the culturally deprived who have no marketable skills; aged pensioners and others who must depend upon fixed incomes eroded by inflation; victims of technological unemployment; and inhabitants of "poverty pockets," i.e., geographical areas which have lost their economic base due to the exhaustion of natural resources, the drying up of markets because of competition from new and better products, etc.

Even allowing for these exceptions, employment is at an all-time high, and the demand is great even for unskilled labor. When, for example, in New York City, jobs for domestics at $125 a week, for messengers at $95 a week, for porters at $100 a week, and for file clerks at $95 a week are going begging, it is easy to jump to the conclusion that anyone who is willing and able to work can make a decent living. Modern transportation has increased the mobility of labor so that few able-bodied persons need remain in those atypical areas where opportunity is not available. Furthermore, unemployment compensation, public housing, Medicare, aid to dependent children, and scores of other provisions which in George's day existed barely or not at all, now cushion the impact of destitution so as to make it often far less glaring and drastic than was once the case.

Yet we do not need to dig very deep below the surface to realize that, in spite of all that has just been said, poverty is still a problem and a major one. In the first place, mental and physical disabilities engendered by poverty make it difficult and often impossible for many people to take advantage of the opportunities which now exist. Ignorance, lassitude, improvidence, despair -- these are frequently cultural patterns conditioned by generations of material deprivation, and one cannot expect them to be abandoned overnight. Symptoms of poverty, they also sustain and reinforce it.

Secondly, and perhaps even more important, our general prosperity may be more apparent than real. Money wages are high but nationwide the purchasing power of the dollar is lower than it has ever been. Our high level of employment is at least in part the result of monetary inflation and of policies and institutions (child labor laws, compulsory retirement, the draft, the "closed shop," welfare, restrictions on immigration, etc.) which keep a substantial segment of the potential labor force out of the labor market. The employment slack is taken up in large measure by jobs which are either directly or indirectly related to military needs. While such jobs may be essential to defense, dependence upon military payrolls is scarcely conducive to a strong economy.

The various forms of government aid which provide minimal security against extreme want are financed by onerous taxes which reduce the incentive to produce wealth, and by deficit spending which has created a heavy and oppressive lien against the earnings of future generations. Many thoughtful persons question whether it is either economically sound or morally just to mortgage the future in this way.

THE MARKET ECONOMY

Lesson II

Pp. ix-7

The Command Economy and the Market Economy

Simply stated, political economy is the study of how man earns his living. Formally stated, it is the discipline which treats of the production and distribution of wealth.

A distinction is made in economic theory between two fundamental types of economic order. In practice, the distinction is a relative one, since neither type is anywhere found in an absolutely pure form. The distinction is useful, however, for purposes of analysis and comparison.

In a command (or planned) economy, economic decisions are made by some central political authority. This authority may be autocratic, as in the Soviet Union or Red China, or democratic, as in Great Britain or Sweden. In either case, however, production and distribution are controlled by government planning rather than by the forces of supply and demand.

In a market (or free) economy, decisions are made by individuals as to what goods and services they want and are willing to pay for. These decisions are reflected in the process of exchange which, guided by the interplay of supply and demand, determines what is produced and how it is distributed.

Professor Ludwig von Mises, the distinguished Austrian scholar, contends that a command economy is not really a true economy at all, since its decisions are inevitably made according to criteria which community in taxation would be simply equivalent to an increase in the power of net production. It would in effect add to the productive power of labor and capital just as do improvements in technology and increasing density of population. As the advantage in the one case goes to the owners of land in increased rent, so would the advantage in the other. Reduced taxes would raise wages and interest in the short run, but the raise would soon be swallowed up in rent.

Of course, the foregoing is no more an argument against economy in government than it is against material progress. The more complex and costly government becomes, the more numerous its functions are, the more power it has and the more difficult it is for the citizens to control it. Any reduction of unnecessary government functions and expenditures is all to the good, for it lessens the opportunity for corruption and the exercise of arbitrary power over the lives of individuals. But desirable as it may be, it is no real answer to the economic ills which beset our society.

2. Increased Education and Improved Habits of Industry and Thrift

Like economy in government, increased education and improved habits of industry and thrift are certainly to be desired. Yet in the long run, under existing social arrangements they can do nothing in themselves to enhance general living conditions. To see why this is, we need only remember that as soon as land has acquired any exchange value at all, wages and interest are not determined by what labor and capital produce but by what is left to them after rent is paid. If the exceptional man does have a better education, or works longer or more efficiently or is more saving than his fellows, he may indeed improve his position. But if the average man were to better his education or increase his exertions or reduce his expenditures until these equaled those of the exceptional man, this increased education or exertion or frugality would then become the average and would be demanded of all. The return then received for these heightened qualifications would not be that previously gained by the exceptional man, but rather no more than the average man previously gained without them. Only a few generations ago, the man who could read and write was an exception, and because of this he could command higher than average wages; but today, when practically everyone in the United States can read and write, this ability brings no premium. However, the lack of it now brings a penalty. If the Job Corps were to succeed in giving everyone in the nation a marketable skill, the effect would only be to decrease wages. What has just been said is equally true of thrift. As long as it is uncommon, thrift benefits the individual who practices it, by allowing him to save. When it becomes the norm, as long as men must compete for jobs, it simply drives wages down to what a thrifty man is able to live on. The Germans have long been noted for their industry, thrift and high general level of training. But these qualities did not save them from the economic distress which led to the rise of Hitler.

3. Labor Unions

The growth of unionism in various industries has unquestionably led to wage increases. The effect of this, however, has been in many cases to reduce the number of jobs. Unless the total sum of wealth produced is increased without the increase being preempted by rent, a raise in wages can only benefit some workers at the expense of others, or be passed on to the consumer in the form of higher prices. When the latter occurs, since all laborers are also consumers, any added buying power they recieve from wage increases is negated as soon as such increases become general, for with the general rise in commodity prices their wage advance turns into a mere paper one. If wages are again raised to "keep up with the cost of living," ~~prices again mount~~. We are all familiar with this spiral.

Aside from the ability to influence legislation, the only way in which unions can achieve their demands is through striking or threatening to strike. Any work stoppage involves not only a waste of capital but also a reduction in the product out of which wages must be paid. Even if a wage increase is achieved through a strike, it may never compensate for the loss of income suffered by the workers while they are off the job, particularly since, if union demands are met in many industries, the purchasing power of the increase will be offset by a general advance in prices.

Furthermore, a strike is by definition a conspiracy in restraint of trade, for it is bound to be broken if it fails to stop or slow production. Anti-trust legislation prohibits business from engaging in conspiracy in restraint of trade, but labor was specifically exempted from this prohibition by the Wagner Act. The question might well be raised as to whether or not such exemption violates the principle of equality before the law.

Cooperatives

There are those who believe that wealth would be more equitably distributed if middlemen were done away with, both in manufacturing and in exchange. They hold that if people will come together in organizations which produce goods or offer services for their members' use instead of for a profit, a higher standard of living will result. Producers' cooperatives seek to do this within a limited framework, inasmuch as their members, as members, are consumers only of wealth and services used in production. Consumers' cooperatives extend the idea further, since they are intended to supply wealth and services for their members' ultimate use rather than for a use which envisages further exchange meant to yield a profit. Both forms have as their objective the abolition of unnecessary costs.

When middlemen are eliminated, the work of transportation and marketing must be handled by the cooperatives themselves. Since this is to abandon the principle of division of labor, it may very well not reduce actual costs at all in many cases. Any apparent saving would have to be balanced by the extra time and effort necessitated by lack of specialization. However, it is not to be denied that in some instances, especially in Scandinavia, cooperatives have contributed substantially to the well-being of their members. Yet if cooperation became the rule rather than the exception, any advantage it might give in reducing costs would be lost, for the same reason that industry, economy and education cease to give an advantage when they become general.

"Profit," it must be remembered, is only a bookeeping term; even if wealth is produced for use instead of for profit, it must still be divided between the factors of production in some manner. Where the land has been donated or leased on favorable terms to a cooperative, this will mean reduced production costs the benefit of which will go to the members as lower prices. Otherwise, any saving actually achieved by a cooperative is likely to be absorbed in increased rent.

5. Governmental Direction and Interference

The manifold forms of governmental direction and interference by which it is proposed to mitigate or extirpate poverty have one thing in common: they restrict the freedom of the individual. While this might not be enough to condemn them in itself, it is evident that whatever savors of regulation and restriction should not be resorted to if any other means exist by which the same end can be accomplished. A graduated tax on incomes, for example, is one means of reducing or preventing immense concentrations of wealth. But this means (quite apart from the fact that it makes no distinction between wealth which is earned and wealth which is the result of privilege) is undesirable because it involves an army of officials clothed with inquisitorial powers. The temptation to bribery and perjury and other methods of evasion beget a demoralization of opinion, and put a premium upon unscrupulousness and a penalty upon conscience. And finally, just in proportion as the tax accomplishes its effect, it destroys the incentive to produce wealth, which is one of the strong forces of industrial progress

The restriction of imports, whether through quotas or protective tariffs, is another mode of interference which some imagine makes for high wages and a good living standard. In reality, these policies only keep prices artificially high without any corresponding effect on wages; in fact, they tend to lower wages by decreasing the amount of goods the wages will buy. They cannot raise the general level of wages or interest because by hampering specialization and the division of labor among nations, they lessen the amount of wealth to be distributed. Free trade is simply the free market on an international scale; it consists of letting people buy and sell as they wish to buy and sell. Tariffs and quotas are as truly applications of raw force as are blockading squadrons, and their object is the same -- to prevent trade. "The only difference between the two is that blockading squadrons are a means whereby nations seek to prevent their enemies from trading; protective tariffs are a means whereby nations attempt to prevent their own people from trading. What protection teaches us, is to do to ourselves in time of peace what enemies seek to do to us in time of war." (Henry George, *Protection or Free Trade?* [New York: Robert Schalkenbach Foundation, n.d.], p. 47.)

The most thoroughgoing form of governmental direction and interference is, of course, Socialism -- public ownership of the means of production and exchange. Even if Socialism worked from an economic standpoint, it might still be a poor bargain because of the price which it exacts in human freedom. But as a matter of fact, as we pointed out in our discussion of the command economy, a purely socialized society would be an economic nightmare because it would have no rational criteria for economic calculation. Only a competetive market can establish sensible and just priorities ~~as~~ between conflicting wants and needs. Without such a market, there is no alternative to the excessive production of goods for which demand is meager, and the inadequate production of goods which people want. The objections to Socialism apply also to measures such as wage and price controls, whereby government attempts to regulate the exchange of wealth while leaving ownership in private hands. Since they partake of the essence of Socialism, they also exhibit its evils, for it is not ownership so much as control which determines the fundamental character of an economic system.

In the United States, as well as in many other nations, the most fashionable type of governmental direction and interference has for some time been the approach advocated by John Maynard Keynes and his disciples. Lord Keynes believed that the cause of business slumps and unemployment is too little investment. George would say that this is indeed the proximate cause but not the basic one -- that Keynes' diagnosis is like assigning "heart failure" as the cause of death. He would say that the reason for too little investment is that investment is discouraged by the speculative advance of rent. Keynes' remedy was to increase investment by government spending, which has a "multiplier" effect in generating spending from private sources. According to Keynes, there would be no point in increasing government spending by raising taxes in the same amount, for this would mean a proportionate spending decrease in the private sector. The spending must come rather from an increase in the currency supply -- i.e., monetary inflation. This is mainly accomplished in various indirect ways, but in effect it is as if the government gets the extra money by simply printing it. Keynes also argued that if spending is to be increased when there is danger of unemployment, then it must be cut back when there is not. The business of doing all this is called "managing the economy."

It cannot be denied that the Keynesian approach "works" after a fashion. It is a major reason why we have had no industrial depressions for almost forty years. A continual decline in the value of money means that those who have contracted to receive fixed rents get a decline in real income. During an inflationary period, prices and profits in terms of money rise year by year but contractual rents remain the same. Thus monetary inflation can reduce the excessive overhead of land, often a speculative one, to manageable proportions. Further, the effect of steadily rising prices is to encourage consumers as well as manufacturers to buy ahead so as to get goods cheaper. This sparks economic activity which would, of course, eventually peter out were it not for subsequent and repeated doses of the same medicine. Unfortunately, inflation reduces not only the value of fixed rents but also that of such other sources of fixed income as pensions and insurance policies. In addition to this, it tends to price our goods out of the world market, causing a decline in exports and an adverse balance of payments.

Treatment of effects rather than of basic causes can be superficially and temporarily successful. Most drugs work in this fashion; the only trouble is that the moment they are stopped the symptoms appear again.

Monetary inflation is a drug which has unpleasant side effects. While alleviating one economic ailment, it triggers others. Thus it has often been found necessary to withdraw the drug for awhile. But when this is done, symptoms of the underlying disease again crop out. Even the most expert practitioners are seldom agreed as to exactly when the inflation drug should be administered and when withdrawn; neither are they agreed as to the dosage. The patient's condition is so complex and his environment contains so many imponderables that no economic doctor can prescribe with adequate knowledge of the consequences. Yet if the patient is not to suffer serious side effects, this drug must be administered with the most delicate timing and in the most precise amounts. Thus the results of this "cure" are frequently as bad as the disease. Even where this is not so, they obscure the underlying malady and thereby divert attention from the real remedy.

6. More General Distribution of Land

From what has already been said, it must be clear that there is a strong connection between social distress and the tenure of land. Today we hear much talk about the necessity for "land reform," especially in underdeveloped nations. By this is usually meant some scheme for dividing land up on a more equal basis, and restricting the amount which any one individual may hold. Few industrialized nations have done this to any significant degree, Japan being the most notable exception. The connection between social distress and the land question is more palpable and easier to recognize in an agricultural than in an industrial society, although in an industrial society it may be, although hidden, even more significant.

To equalize the distribution of land may spread the fruits of production somewhat more evenly, and make for political stability by providing a broader segment of the public with a stake in the social order. This it has manifestly done in Japan, Formosa, and elsewhere. But while it may make the comfortable classes larger, there is no way in which its advantages can extend to the whole population. The difference in grades of land makes perfect equalization impossible, and even if this were not the case, population increase would require additional subdivision with each generation. Limitations on the size of holdings do not reduce rent; they simply augment the number of landholders. Rent still increases, and still steadily lessons the proportion of the produce going to labor and capital. The only difference is that some tenants of the first landlords, who become landlords in their turn, profit by the increase.

The modern trend is toward production on a large scale, both in manufacturing and in agriculture. Small farms are being combined into larger ones, which reduces the cost of production. Therefore any measures which merely permit or facilitate the greater subdivision of land would, in the long run, be inoperative, while measures compelling smaller holdings would reduce efficiency and cut down production, lessening the aggregate amount of wealth. Production on a large scale is a natural and wholesome economic development. Any sound land reform must go along with this natural trend, and not against it.

7. Public Appropriation of Economic Rent

The only remedy for an evil is to remove its cause. We have examined the most popular remedies intended to achieve a more just distribution of wealth, and found all of them either futile or characterized by side effects as undesirable as the condition they are meant to cure. ~~NO~~ None of them really go to the heart of the problem; they deal with symptoms only.

Henry George pinpointed the maldjustment which, more fundamentally than any other cause, gives rise to the manifold ills which plague our economic life. He located it in the private appropriation of ground rent, which, by fostering land speculation, and by giving an ever-increasing share of the wealth to a non-producing element within society, drastically curtails the return to those by whose labor and productive self-denial all wealth is created.

Having put his finger on the cause, George proposed to remedy it by making land common property through the public appropriation of rent. He advocated that as rent is appropriated through taxation, all other taxes be proportionately reduced or abolished. Therefore his philosophy is sometimes called the "Single Tax," although, strictly speaking, this term does not accurately describe it for reasons which will become apparent later. His assertion, "We must make land common property," requires explanation, for superficially it seems to suggest something in the nature of collectivism. That it really signifies nothing of the sort will become plain in subsequent lessons. Suffice it now to say that by "common property" George did not mean government property. He was far from advocating the abolition of individual land tenure, or the establishment of any kind of communistic subjugation by the state. George was, in fact, an uncompromising critic of Karl Marx, who, in turn, attacked him, calling his proposal "Capitalism's last ditch."

There are essentially three kinds of property: private, government, and common. Private property is that which an individual (or group of individuals) has the exclusive right to possess, enjoy, and dispose of as he (or they) may choose. Government (or public) property is that which belongs to the state and is subject to the direct control of the political authority. Common property is that which all men have an equal right to use and to enjoy. It is thus seen that common property is not government property. Common property in the ocean is generally recognized; the ocean does not belong to any government. (Within territorial limits, ownership in the ocean is vested in the nation but not necessarily in the government.) And common property is different from private property. Common property permits of private use and possession, but only on condition that such use and possession confers no monopolistic advantage -- that it not be exercised in violation of the equal right of others to use and to possess.

The institution of private ownership of land has two distinct features: First, it gives undisturbed possession of the land, and security in the enjoyment of one's products and improvements. Second, it permits the private appropriation of the value ("unearned increment") which accrues to land by reason of the presence and activity of society. It is only this second feature of landownership with which George proposed to do away.

By its very nature, land is common property, and there still remain in most Western legal systems survivals of the primitive recognition of this fact. Society fixes the conditions under which land may be held. The principle of eminent domain asserts the superior claim of society to land. The constitution of the State of New York, for instance, declares: "The people of the State, in their right of sovereignty, possess the original and ultimate property in and to all lands within the jurisdiction of the State." (Sec. 1, Par. 10.) English and American law generally recognize absolute ownership of goods but not of land. The very distinction made in legal terminology between real and personal property is but the vestigial remnant of an ancient distinction between what was originally looked upon as common property and what was always considered the peculiar property of the individual.

Private ownership of land is not essential to security of tenure. Without security of tenure, the user of land could not be certain of getting the benefits of the improvements he made or of the wealth he produced thereon; therefore he would not attempt to put it to its best use if doing so required the expenditure of much capital or effort on his part. But, given security of tenure, the man who wishes to use land (not speculate in it) does not need to own it in the sense that he owns the improvements made on it or the wealth produced from it. Today many of our largest buildings, including Rockefeller Center, the Chrysler Building, and the Waldorf Astoria Hotel, are built on leased land.

To effectuate common property in land, George proposed that individuals retain title to land, and be assured of fixity of tenure and undisturbed possession as long as they pay its rent to the community. For since the rent of land measures exactly the value of the advantage which exclusive possession of a site gives landholders over the other members of the community, it expresses the exact amount which they should pay to the community to satisfy the equal rights of all.

THE RIGHTFUL BASIS OF PRIVATE PROPERTY

Lesson VII

Pp. 145-168

Today, when the entire concept of property rights has come under attack, it is especially needful to arrive at clarity as to what constitutes the moral justification for private ownership. As this is done, it will become evident that a distinction must be made between genuine and spurious rights to property. One often hears it said that "human rights are more important than property rights." Actually, of course, nobody has ever maintained that property, as such, has rights. When property rights are spoken of, what is referred to is one of the most fundamental human rights -- the right of human beings to own property.

It is important at this juncture to be sure we understand the difference between charity and justice. Where in the name of love or charity it would be morally wrong for a man with plenty of food to let another man starve, this has nothing whatever to do with the <u>right</u> of ownership of the food, which, if morally established in the beginning, cannot be altered by another man's need. Thus the plea, "My need was greater than his," although in extreme circumstances sometimes viewed as pointing to a mitigating circumstance, has never been generally accepted as a justification for theft. The fact that people better situated may have a moral obligation to give, does not establish any <u>right</u> to receive on the part of the needy. It is upon the assertion of such a pretended right that such groups as the paradoxically-named "National Welfare Rights Organization" are based. If people are in need of welfare because they have been deprived of legitimate rights, it is these that they should be claiming rather than demanding welfare as a right. Charity depends upon justice. Apart from justice there can be no true charity, because only in the light of justice can anyone know what is his own and what he has a right to give.

In seeking to discover the moral basis for private ownership, let us take as our starting point the proposition that a man has a right to himself. The alternative to this proposition is the moral acceptance of chattel slavery. From this proposition we may deduce the further proposition that a man has a right to his labor, since his labor is an extension of himself -- his person, poured out, as it were, with varying intensity in time. If this be so, it is patent that he must have a right to what his labor produces, or the equivalent thereof through free exchange. John Locke, the great British philosopher whose thought had such a profound influence upon our Founding Fathers, enunciated this concept in the following words: "The labor of his body and the work of his hands we may say are properly his. Whatsoever then, he removes out of the state that nature hath provided and left it in, he hath mixed his labor with, and joined to it something that is his own, and thereby makes it his property." (Of Civil Government, chap. 5.) Such property he has a right to use, to enjoy, to destroy, to exchange, to give or to bequeath, for it is the product of his own exertion.

Arguments for Private Property in Land

If we accept the proposition that the right to property is based upon the right of a man to the products of his labor (or to their equivalent by exchange), it is evident that no right to property in land can be established upon this foundation. For land is not the fruit of man's labor but a "free gift of Nature" or, as many of us would profess, of God. Locke conceded that such a right may be justly recognized "as long as there is enough, and as good, to spare," but translated into economic terms this means as long as ownership gives no advantage which has market value -- i.e., as long as rent has not yet arisen. Clearly then, if private rights to land exist, their warrant must be found elsewhere. Let us examine in turn the main ideas set forth in support of private ownership of land.

1. Priority of Occupation: Were there always an abundance of land of equal quality available to everyone just for the taking, ownership grounded on priority of occupation would not disturb the principle of equal rights. When, however, those who must live by land find on coming into the world that all the good land has already been claimed without their having had an equal opportunity to participate in the allocation, it is a different matter. By equal rights among men we cannot mean equal rights for just one generation. If all existing men were to grant away their equal rights, they could not grant away the rights of those who follow them. "Just as the passenger in a railroad car may spread his baggage over as many seats as he pleases, until other passengers come in, so may a settler take and use as much land as he chooses, until it is needed by others -- a fact which is shown by land acquiring a value -- when his right must be curtailed by the equal rights of the others, and no priority of appropriation can give a right that will bar these equal rights of others." (Progress and Poverty, p. 345.) [unabridged]

2. Conquest: To seek to justify individual rights to land on the basis of conquest is to accept the principle that might makes right. One is reminded of the story of the Irishman who, found trespassing and being ordered off the land by its owner, asked, "How did you get this land that you claim to be yours?" The landowner replied, "My forefathers fought for

it, and that established my family's right to it." "Very well, then," said the trespasser, removing his coat, "I'll fight you for it for my family."

3. Inheritance, Purchase and Gift: The moral and legal rules of our society both recognize that a buyer or beneficiary can acquire no better title to anything than the seller or donor himself originally had. The person who in good faith with his own hard-earned money buys stolen property must, if the property is shown to be stolen, return it to the proper owner, whose right to it over-rides that of any other individual. The validity of any title to anything gifted, purchased or inherited must therefore depend upon the validity of the original title. With goods this is usually easy to establish; with land, impossible unless we accept one or more of the other criteria which we are in process of considering. As a matter of fact, if traced back far enough, virtually all land titles may be seen to have originated in fraud or force. (Cf. Alfred N. Chandler, Land Title Origins [New York: Robert Schalkenbach Foundation, 1945].)

4. The Making of Improvements to and Upon Land: The making of improvements gives an undeniable right to the improvements themselves, but it cannot give a right to the land because the land is not a product of human labor. All wealth perishes eventually, returning to the earth from whence it came. Thus when a man "mixes his labor with nature" to produce an object, his ownership of the object does not constitute a permanent monopoly of its material components, nor does his separation of raw materials from their natural storehouse prevent others from doing the same. Such is not the case with the ownership of land.

Some improvements in time become indistinguishable from the land itself. When such improvements as grading, draining or filling date back many years, it may not be possible to make an accurate separation; however, in such cases it would not be necessary. The lapse of time would justify our considering these improvements as the work of nature, and this could hardly involve injustice to anyone since the investment they represent would presumably have been long since recovered. It would involve injustice, however, if such improvements were regarded as establishing a claim to perpetual ownership of the land.

Parenthetically, it might be pointed out that a musical or literary composition is the purest kind of labor product, requiring for its existence only the most negligible material embodiment. Yet our copyright laws recognize and protect the private ownership of such a composition only for a limited period of time, after which it passes into the public domain. Land, in contrast, which no man created but which God made for the use of all, may be legally monopolized in perpetuity!

5. Custom and Habit (Prescription): If custom and habit had always been accepted as a justification for not disturbing legal rights, we should still have slavery. As Herbert Spencer put it, he who uses the argument from custom must "find satisfactory answers to such questions as, How long does it take for what was originally a _wrong_ to grow into a _right_? At what rate per annum do invalid claims become valid? If a title gets perfect in a thousand years, how much more than perfect will it be in two thousand years? -- and so forth. For the solution of which they will require a new calculus." (_Social Statics_; 1st edition [New York: Robert Schalkenbach Foundation, 1954], p. 105.)

With respect to property in land, this argument is especially inapplicable. For if a man or a people are robbed of money or goods, the effects of the deed are eventually obliterated by time. But to take from people access to the land on which they must live is a continuous robbery, a fresh robbery of every succeeding generation; it is like the robbery which condemns to slavery the children of the slave. To apply to it the statute of limitations, to acknowledge for it the title of prescription, is not merely to condone the past; it is to legalize robbery in the present and to justify it in the future. When we speak of robbery in this connection, we are not, of course, impugning the character of any individual or class, but are referring to the system only.

It is on the basis of the argument from custom that some social theorists maintain that if rent were publicly appropriated landowners should be compensated for its loss. This is illogical. The present landowners are not to blame for the establishment of the system but neither is the public. To compensate the landowners for the full value of their privilege would serve no purpose, for it would only substitute for privately collected rent a staggering public debt equivalent to the rent capitalized plus commercial interest. According to existing law, if a title deed is in dispute, the one who can show the better title is given possession. The law allows no compensation to the loser, no matter how innocently he may have acquired the disputed land. He loses not only what he paid, but also any improvements he may have made, and he may even be forced to yield up whatever profit he derived from the land during the time he had it. If we applied the common law in the case of The People versus The Landowners, not only would no compensation be paid but the landowners would be held accountable for all the rent they had collected in the past!

Nothing so extreme, of course, is contemplated. In fact, it is usually proposed that the shift be implemented in very gradual stages, to avoid the likelihood of anyone suffering unduly. If cases of extreme hardship were still to arise as a result of the shift, very limited compensation might be considered as a matter of charitable expediency rather than of right.

6. Shrewdness and Initiative: It is sometimes argued that if a person has had the foresight to acquire land which has become valuable, its rent is the just reward of his initiative, for anyone else with the same shrewdness and industry could have done the same. Even if this argument were valid, it would, of course, only apply to members of the same generation, for assuming all potentially desirable land to be appropriated, the same opportunity is obviously not available to those born later, regardless of how shrewd and enterprising they may be. But quite apart from this, shrewdness and initiative cannot establish a right to monopolize something which properly belongs to everyone. Suppose some brainy fellow invented and constructed a machine capable of extracting the oxygen from the atmosphere, and then demanded that all others pay a tribute to him on penalty of having their oxygen withdrawn. Would anyone propose to justify his right to do this on the ground that he was simply clever enough to make use of an opportunity which had been available all along to everybody?

History of Property in Land

We have in more than one instance suggested an analogy between property in land and property in men, on the basis that the ownership of neither land nor men can be sanctioned by ethics or by reason. If we go one step further, we shall see that the cases are not merely analogous but ultimately amount to one and the same thing. For the ownership of land will always lead to the ownership of men, to a degree measured by the necessity (real or artificial) for use of land. This is but a different way of stating the law of rent.

Place one hundred men on an island from which there is no escape, and whether you make one of these men the absolute owner of the other ninety-nine, or the absolute owner of the island, will make no difference either to him or to them. In the one case, as in the other, he will be their absolute master -- his power extending even to life and death, for simply to refuse them permission to live upon the island would be to force them into the sea.

As a matter of fact, the institution of absolute private property in land is, in Western society, a legacy from the Roman Empire, where it went hand in hand with slavery. Both began on a large scale with military conquests, when the conquerers divided the conquered territory among themselves and made slaves of the dispossessed. The Roman Empire fell victim to the devastating effects of land monopoly after its public domain had been carved into large estates, and the small propriators gradually crowded out. Circumstances eventually became such that only a tiny fraction of the population had any incentive to defend the borders of the empire against the Teutonic tribes which pressed upon them from the north.

These tribes, like virtually all primitive peoples, did not recognize private property in land. All the members of each tribe had equal rights to the use and enjoyment of the tribal territory. Pasture and forest lands were retained for use in common, and equality as to agricultural land was secured by periodical re-division. This system fostered the vigorous and independent spirit which enabled the Teutonic peoples to break through the frontiers and engulf the empire. (The American Indian approach to landed property was, by and large, similar. When the Dutch West India Company purchased Manhattan Island for the equivalent of $24, the Indians thought they were merely selling equal rights to the common use of the island, for the idea of absolute private ownership of land was unknown to them.)

The feudal system, which arose upon the ruins of the empire, was a blending of the Teutonic idea of common rights in the soil with the Roman idea of exclusive property. The sovereign, theoretically the representative of the whole community, held all the land as a trustee for the public. For this reason, landed property came to be known as "real estate," i.e., regal or royal estate. Practically all the costs of government were met by the medieval equivalent of a heavy tax on land. The crown lands supported the expenditures of the royal court. The church lands defrayed the cost of public worship, instruction, and the care of the sick and destitute. The military tenures provided for the public defense. Although land was granted to individual possession, this possession entailed obligations by which the holder was supposed to render back to the commonwealth an equivalent for the benefits which he received from the delegation to him of the common right. His tenure was conditional upon the discharge of these obligations, and subject to review as a matter of course upon his death. His peasants held their plots and cottages as hereditary tenancies, and could not be evicted from them as long as they paid fixed rents, usually in labor or in kind. Furthermore, a considerable proportion of the area of most European countries was retained as commons, where anyone might hunt, fish, gather firewood, pick nuts and berries, or graze cattle or livestock.

With the waning of the Middle Ages, the feudal system began to disintegrate. Little by little, quite illegally, the commons came to be annexed to the private estates of the aristocrats and gentry, and the peasants forcibly evicted from their hereditary tenancies. (The story of Robin Hood cannot be understood except against the background of this process, known to history as the "Enclosure Movement." When Robin Hood "robbed the rich to give to the poor," he was not violating the authentic rights of property, but only in effect returning property which had been seized from its rightful owners.) This development went on for several centuries. In England, it culminated under the reign of Charles II, when

Parliament, composed exclusively of and elected solely by landowners, ratified the enclosures, and made landownership absolute instead of conditional upon the exercise of duties. Thus was revived the system which had eaten out the heart of Rome. As a result, until well into the present century much of the site of London was owned by a single individual -- the Duke of Westminster. With the colonization of the New World, this system was imported to America, but its influence there was minimized by the presence of vast free territories in the West. However, Franklin, Paine, Jefferson, Lincoln and others considered it fundamentally unjust, and recognized that in time it would create enormous social problems for the Republic.

Rent as a Social Product

So far, we have been attempting to show the inequity of absolute private ownership of land, an inequity which George proposed be rectified not by the abolition of individual land titles but by the public appropriation of rent. We shall now address ourselves to the subject of rent *per se*, and show that there is still a further reason why its full collection by the community would be morally correct.

The rent of land (including the market value of airspace, airwaves, mineral deposits, and all other natural phenomena) is a peculiarly social product which the owner, as such, does nothing whatever to create. This is apparent from the fact that a vacant lot, innocent of the least improvement, may be worth a fortune simply because of the presence and activity of the community around it, whereas, conversely, the most intensively improved site in the middle of an uninhabited desert will be worthless because there is no community around it to give it value. The ground beneath "Scotty's Castle" in Death Valley is a case in point.

Rent arises on a site, not because of anything the individual owner does to it, but because of the aggregate improvements in the neighborhood, the existence of roads, schools, police and fire protection and other public services, and the mere proximity of population.

There are those who claim that all commodities are social products, since nothing is produced for sale unless there is some demand for it on the part of society. But this is to ignore the fact that in a free market the value of commodities is governed by the relation between demand and an elastic supply. In the case of land, the supply is fixed by nature, not produced by labor in response to the demand. Of the two, demand is thus the only active factor which gives rise to rent. (Owners can, of course, artificially contract the supply of land by refusing to sell or lease their holdings at the current value, and thus increase its selling price. But this is a monopolistic phenomenon, not a feature of the free market.)

Rent is not the only form of unearned increment. The value of stocks, antiques and works of art may rise quite independently of their owners' effort or lack of effort. Yet even if these windfalls have not been earned by their owners, no one else has any better claim to them. They are not reaped at the public expense. Such manifestly cannot be said of rent.

Winston Churchill once put it this way in a speech before the House of Commons: "The greater the population around the land, the greater the injury the public has sustained by its protracted denial, the more inconvenience caused to everybody, the more serious the loss in economic strength and activity, the larger will be the profit of the landlord when the sale is finally accomplished. In fact, you may say that the unearned increment on the land is reaped by the land monopolist in exact proportion, not to the service, but to the disservice done. . . . The greater the injury to society the greater the reward to the monopolist."

If society leaves in private hands that which society has produced, it must turn elsewhere for its revenue. This elsewhere can only be the wealth produced by private effort and initiative. To take this wealth for public purposes when a publicly-created source of revenue is left untouched, is an obvious denial of the true rights of private ownership.

"The right of ownership that springs from labor excludes the possibility of any other right of ownership. If a man be rightfully entitled to the produce of his labor, then no one can be rightfully entitled to the ownership of anything which is not the produce of his labor or the labor of someone else from whom the right has passed to him. . . . The right to the produce of labor cannot be enjoyed without the right to the free use of the opportunities afforded by nature, and to admit the right of property in these is to deny the right of property in the produce of labor. When non-producers can claim as rent a portion of the wealth created by producers, the right of the producers to the fruits of their labor is to that extent denied." (Progress and Poverty, [unabridged] p. 336.)

Landowners as individuals should not be condemned for profiting from the existing system. No one can be blamed for preferring to be a beneficiary rather than a victim of the system under which he lives. But perhaps we should all be condemned if we fail to work for the realization of a system under which there are no victims!

A NEW DIMENSION IN TAXATION

Lesson VIII

Pp. 132-144

In the United States the necessity for tax reform is coming to be recognized as never before. Congress is increasingly reluctant to vote new taxes or even to extend present ones unless they are tied to a major revision of the overall tax structure. Ominous voices are heard warning of a "taxpayers' revolt" if sweeping changes are not made without delay. There seems, however, to be no widespread agreement as to the direction which the reform should take, and most of the changes proposed would merely serve to plug loopholes and otherwise patch up the present system, a system decried as "obsolete" by President John F. Kennedy in his State of the Union Message of 1963. According to the late chief executive, it "exerts too heavy a drag on private purchasing power, profits, and employment. . . . It discourages extra effort and risk. It distorts the use of resources. It invites recurrent recessions, depresses the Federal revenues, and causes chronic budget deficits."

Three Purposes of Taxation

Although the primary and most obvious purpose of taxation is to raise revenue for public services, taxation can also be employed to redistribute wealth and to implement government management of the economy. A steeply progressive income tax is a classic levelling device. A surtax may have as its prime function the abatement of inflation -- removing excess money from the economy to decrease consumer demand. Some taxes are intended to fulfil all these purposes; others, to fulfil one or two of them. There is, however, no assurance that the effects of every tax will be confined to the specific purposes for which it is intended, for taxes frequently have economic and social consequences independent of the wishes of those who institute them.

The best example is perhaps the window tax, which in England resulted in the bricking up of windows. In France, a tax on fireplaces, intended as a levy upon wealth, produced only cold homes, and a tax on newspapers (fixed by the number of pages) produced huge, unwieldy, one-page gazettes. The stamp tax and the tax on tea had results quite other than those contemplated by the ministers of George III.[1] In our own time, taxes on improvements discourage building and renovation, and have even been responsible for the development of grotesque and inefficient forms of architecture.

<u>Types of Taxes</u>

There seems to be no limit to the tax variations and combinations which human ingenuity is capable of devising, yet there are really only two basic sources from which public levies can be drawn. One is the rent of land, and the other is the earnings of labor and capital. Most existing taxes in the United States are derived from both these sources indiscriminately, whether directly or indirectly, although assessment practices are commonly such that most property taxes fall less heavily upon rent than upon the value of improvements.

Import duties once constituted the chief source of federal tax revenue. Since the passage of the Sixteenth Amendment, the ~~graduated~~ income tax has supplanted all others as by far the major source. It falls upon personal income in one form and upon corporate income in another. Inheritance, estate and gift taxes, as well as the capital gains tax, represent variant applications of the income tax principle, differing from it chiefly with respect to timing.

Although many states also resort to income taxes, the sales tax is the most widely-used source of compulsory revenue on this level. In addition to the general sales tax, states usually levy special taxes on specific commodities such as cigarettes, liquor and gasoline. Local governments (county, municipal, school district, etc.) have traditionally depended mainly upon the general property tax. The above account collectively for the bulk of tax income at the various levels. It would serve no purpose to enumerate the multitudinous lesser imposts which might also be cited, many of them being only specialized versions of the more important taxes.

Four Criteria for Sound Taxation

Four canons have long been generally accepted as constituting the criteria for a sound tax. Although these criteria have been honored more in the breach than in the observance, few if any tax economists dispute their validity. They are as follows: 1. A tax should bear as lightly as possible upon production, so as not to decrease the general fund of wealth. 2. It should be easily and cheaply collected and administered, and should rest with those upon whom it directly falls instead of being passed on. 3. It should be certain, so as to give the least opportunity for corruption or arbitrary behavior on the part of officials, and the least temptation to law-breaking and evasion on the part of taxpayers. 4. It should be fair; it should bear equally, so as to give no citizen an advantage nor put any at a disadvantage as compared with others. Let us see how a tax on land values conforms to these criteria as compared with other taxes.

1. A tax should bear as lightly as possible upon production, so as not to decrease the general fund of wealth: All taxes must ultimately come out of production, since there is no other source of wealth. But

equal amounts of taxation may affect production differently, according to the manner in which they are imposed. A man might carry a load of a hundred pounds on his back and walk without difficulty, but the same load tied to his foot would make it impossible for him to take a step.

Taxation that lessens the reward of the producer necessarily lessens the incentive to production. Thus taxation that diminishes the earnings of the laborer or the returns of the capitalist tends to render the one less industrious, and the other less disposed to save and invest. A tax on a commodity increases its cost, and, by decreasing consumption, tends to discourage its production; if the tax be high enough, it will cease to be produced at all. All taxes on labor or on labor products tend to deter production, and thereby decrease the aggregate amount of wealth. This is true of income taxes, sales taxes, tariffs, general property taxes, and virtually all other taxes except the tax on land values.

Unlike taxes upon wages, commodities, exchange, capital or improvements, taxes levied upon the unimproved value of land do not bear upon production. The value of raw land does not express the reward of production (as does the value of crops, buildings, etc.); it expresses the exchange value of monopoly. Hence the community can take all of it without in the least lessening the incentive to improvement or the production of wealth. All rent could be appropriated by the community without reducing wages or interest one iota; without increasing the price of a single commodity, or making production in any way more difficult.

Not only does a tax on land not act as a deterrent to production, but it actually stimulates it. It does this by destroying speculative rent, and thus making more land available to producers at lower cost. If land were taxed to anything near its rental value, no one could affort to hold land without using it; consequently, land now idle or underused would either be used to optimum capacity by its present owners or made available to those who would so use it. Speaking of the California Irrigation District Act, which provides for a tax solely upon land values as revenue source for California's irrigation districts, William F. Knowland, then Republican leader of the United States Senate, said: "This remarkable law has done more for the growth of the state than the discovery of gold. It works as a tool instead of a weapon. It taxes people into instead of out of business."

2. A tax should be easily and cheaply collected and administered, and should rest with those upon whom it directly falls, instead of being passed on: With certain trivial exceptions, a tax upon land values is the cheapest and easiest of all taxes to collect. For land cannot be hidden or carried off, and its value can be readily ascertained -- particularly so if modern scientific methods of assessment are employed. Since the machinery for assessing the land and collecting the tax is already set up and in operation, no new governmental agency would be required. The machinery which now collects but a fraction of the value, could just as readily collect all of it. Furthermore, a vast horde of officials now engaged in collecting other taxes could be dispensed with, and could devote their efforts to wealth production, thereby enriching instead of burdening the community. This saving would reduce the difference between what taxation now costs the people and what it yields, but the substitution of a tax on land values for other taxes would operate to reduce this difference in another and even more important way.

A tax on land values does not add to prices, and is thus paid directly by the persons on whom it falls; whereas all taxes upon things of unfixed quantity increase prices, and in the course of exchange are shifted from seller to buyer, increasing as they go. Thus the consumer, upon whom these taxes ultimately rest, must pay not merely the initial tax but also a profit on the capital advanced in turn to meet it by the manufacturer, the wholesaler, the jobber and the retailer. Furthermore, during its journey from the producer of raw material to the consumer, the product may be taxed several times. Since each successive tax is levied on a value which includes previous taxes, the consumer is forced to pay taxes on taxes as well as profits on taxes.

The incidence of a tax refers to where it ultimately comes to rest -- i.e., who pays it in the end. All reputable economists, whatever else their views may be, agree that a tax on land values stays put -- that it cannot be shifted by the landowner to the tenant or to the consumer of finished goods. This is not to say that the tenant or consumer does not pay the tax, but rather that he has already paid for it in rent, and cannot be made to pay twice by a tax increase. A tax on land values constitutes a reduction in the amount of rent retained by the landowner, and if it equals the total rent, that amount will, of course, be reduced to zero. The reason for this is that a tax upon anything the price of which is kept down by the ability to produce additional supply will, by increasing the cost of producing that thing, check the supply of it. This will add to the price of that thing, and ultimately fall on the consumer. But a tax upon anything of which the supply is fixed, and of which the cost of production is therefore not a determining element in its price, does not increase the price and falls entirely on the owner. Land is fixed in quantity. Consequently it is a monopoly, and land rent is always a monopoly or maximum price. In this respect it might be compared with the highest bid on a unique work of art sold at auction. Since the last bid represents the highest price anyone is willing to pay, if there be a tax on the sale it cannot be added to the bid but must be paid by the seller, and will reduce the proceeds of the sale. Likewise, a tax on rent cannot be added to the rent; it simply reduces the income of the landowner.

3. A tax should be certain, so as to give the least opportunity for corruption or arbitrary behavior on the part of officials, and the least temptation to law-breaking and evasion on the part of taxpayers: Certainty is one of the important elements of sound taxation, for a tax which relies upon the honesty of either the taxpayer or the collector is bound to encourage fraud and evasion, and to make the estimation of anticipated revenues a matter of sheer guesswork. Such, unfortunately, is the nature of most existing taxes. We are all familiar with the way in which otherwise respectable people think nothing of misrepresenting their income on their annual returns, perjuring themselves before customs agents, deliberately undervaluing their personal property, etc., not to mention the fact that a myriad of tax lawyers and accountants have become rich through their ability to show their clients how to circumvent the law. It would be impossible to measure the waste of wealth, the squandering of talent and the misuse of time engendered by the complicated tangle of tax regulations saddled upon the public. Not only does the uncertainty of our taxes lead to great material loss, but it tells fearfully upon the public moral character. Our revenue laws put a premium upon dishonesty.

The land value tax has none of these defects, for it is as certain as any tax could possibly be. It may be assessed and collected with a precision and inexorability which partakes of the immovable and unconcealable nature of the land itself. Were all taxes placed upon land values, irrespective of improvements, the process would be so simple and clear, and public attention would be so directed to it, that the valuation of taxation could and would be made with the same certainty that a real estate agent can determine the price a seller can get for a lot. The amount of the tax would be governed by the free market, not by a politician's motives or a bureaucrat's whims. Any deviation from market value would occasion immediate public censure, since the attention of all taxpayers would be focused upon assessment, and it would be easy to spot anything approaching favoritism, chicanery or arbitrary valuation.

4. A tax should be fair; it should bear equally, so as to give no citizen an advantage nor put any at a disadvantage as compared with others: Theorists are divided into two broad schools of thought as to what constitutes fairness in taxation. The most dominant school today holds that a fair tax is one which is based upon the ability to pay. A less polite way of expressing this idea is that a tax should "soak the rich." The graduated income tax at least theoretically adheres to this criterion, although the law contains so many loopholes that in actual practice the rich are often better able than others to evade it. The sales tax, on the other hand, is regressive, that is to say, it falls heaviest on those least capable of paying it.

The other school of thought maintains that a fair tax is one proportionate to benefits received from society. In other words, "you pay for what you get." A gasoline tax exemplifies this principle, assuming that the revenues derived from it are used exclusively for highway construction and maintenance.

In an incidental way, a tax on land values conforms to the ability to pay theory, since those who receive unearned increments are obviously to that extent better able to pay than are those who must depend for income on their earnings. However, it is in terms of the benefit theory that the case for the fairness of the land value tax is most strongly made.

Public service cannot be rendered equally to all; each is bound to receive more or less according to his location. For instance, someone miles away from the center of population ordinarily receives much less public service than the city dweller. Since the rural person receives less benefit, it would be patently unfair to make him pay an equal tax; it would be equally unfair to give him the same benefits but make the city dweller pay for them. Equality in taxation must be equality in proportion to benefits received.

Most present taxes violate this principle, as they tax the individual not according to what society does for him, but according to what he does for himself. Let one be industrious and earn much wealth or build himself a fine home, and he will be penalized by high taxes; let another be lazy and shiftless and live in a shack, and his taxes will be very low or non-existent; yet both may get the same amount of service from society. If anything, the shiftless man is likely to get more, to the extent that he may be a public charge.

But, it will be said, does not the industrious individual get more protection and service from society, since he has more property to be protected? As a general proposition, this idea is fallacious. A policemen can patrol a street lined with mansions just as easily if not easier than he can a street lined with hovels. The same fire-fighting force will be required to protect a slum section as a neighborhood of modern homes. In fact, an old tenement requires <u>more</u> protection, since the possibility of fire is greater. Wealthy people usually have fewer children to be educated than have the poor.

It might be objected that the benefit principle, although equitable, cannot be successfully applied on a large scale, because a poor man would not be poor if he were capable of paying for benefits received. Hence, others must pay if he is not to be deprived of services. Yet if the poor man is even minimally self-supporting, the chances are that he is already paying for the social benefits he gets. However, instead of going to society in taxes, his payment goes to the landowner in rent.

The annual rental value of a site provides a precise and infallible index to the public benefits conferred in that location. No one can enjoy the benefits of community life and the social services which the community provides unless he occupies land in the community, and the demand for land, which sets its value, is determined by all the advantages which the location offers. Government services are only a part of such advantages; the opportunities and conveniences afforded to and by manufacturing and commerce, as well as the amenities of cultural activity and social interchange, are all social benefits reflected in the value of a site.

Henry George's proposal is sometimes condemned because of the seeming unfairness of placing the entire tax burden on one class, the landowners. But this objection stems from a failure to recognize that the value of public services is incorporated in the value of land. Landowners who rent their land necessarily act as tax collectors since they charge their tenants for public services. Inasmuch as they do not provide these services, there is no reason, from the standpoint of fairness, why they should be allowed to keep what they thus collect. By taxing land values, the community merely recovers from the landowners the value of the services and other public benefits paid for by the tenants. As for those landowners who do not rent their land but use it themselves, the land value tax would represent a just charge for the public services and benefits rendered to them.

Under the present system, not only does the landowner not pay for the full benefit he receives from society if he happens to be the user as well as the owner of the land, but if someone else happens to be the user, that someone must pay both whatever tax is levied and the difference between that amount and the land's value. Since the value of most land is partly speculative, his payment is commonly greater by far than what it would be if all rent were appropriated by taxation. True rent measures the contribution of society; speculative rent measures the landowner's disservice to society. If land values were taxed in full, there would be no speculative rent, for there would be no incentive to perform the disservice of holding land for speculation.

Sufficiency of Land Value Taxation

To the classic Four Canons of Taxation must be added another criterion which should be considered in evaluating any tax. In actual fact, among government officials hungry for funds, this is usually the first and sometimes the only criterion considered: a tax must be capable of providing the needed revenue.

We have already seen that taxes which discourage production tend, if high enough, to decrease revenue by drying up the only source from which revenue can come. This a tax on land values could not do.

A land value tax is most admirably calculated to meet local needs because such needs increase with the concentration of population, the same cause which is responsible for the increase in land value. The property tax, of which the land value tax is a mode, is traditionally collected and administered by local governments for local purposes. To the extent that local governments have failed to collect economic rent, they have become dependent upon Washington. By failing to appropriate economic rent, the states, too, have been forced to rely increasingly upon the central government, thus weakening the federal structure of divided sovereignty embodied in our Constitution.

The land value tax is, technically speaking, not really a tax at all, since a tax is authoritatively defined as "a compulsory contribution . . . to defray the expenses incurred in the common interests of all, without reference to special benefits conferred." (E. R. A. Seligman, Essays in Taxation [9th ed.; New York: Macmillan, 1923], p. 432.) It is rather a public price charged by society for the exclusive privilege of using a location. It "falls upon those who receive from society a peculiar and valuable benefit, and upon them in proportion to the benefit they receive. It is the taking by the community, for the use of the community, of the value that is the creation of the community. It is the application of the common property to common uses." (Progress and Poverty, p. 421.) [unabridged]

It must be admitted that there are some public services which are of ~~a general nature, and which do not represent any peculiar benefit determined~~ by location. Protection from foreign aggression is the most significant of these. Without it, the value of all locations in a given nation would drop equally for all the citizens of that nation to the extent that conquest would negate the security of all their lives and property. Therefore, the cost of national defense represents not a special benefit conferred by society upon those who use desirable locations, but a general benefit to all within a given nation irrespective of location. The staggering cost of modern warfare makes it improbable that the expense of such a benefit could be met from rent, and still allow for other services which people legitimately expect from government. This, however, is no argument against appropriating rent in full and applying it to public purposes, including defense, as far as it will go. Many proponents of the benefit theory would advocate that any necessary additional defense revenue be obtained through a flat percentage tax on incomes.

The total rent of land in the United States has never been precisely ascertained. Although scientific methods make it possible to appraise land with a high degree of accuracy, irregular assessment practices around the country grossly distort the total picture. Furthermore, rent is disguised in numerous ways -- for instance, it figures largely in stock dividends. There can be little doubt that at the time George wrote, the full appropriation of economic rent would have been enough to meet government budgets at all levels, with probably a considerable surplus. (In 1915, Wilford I. King, then the leading economic statistician, estimated that a single tax on land values would be able to meet all necessary government expenses. Steven B. Cord claims that it could probably have been adequate until the 1930's. Cf. Henry George: Dreamer or Realist? [Philadelphia: University of Pennsylvania Press, 1965], p. 234. Our government today has assumed greatly increased functions, and grown enormously in size and cost. However, it should be remembered that a tax on land values is more than just a revenue device. It is an engine of social and economic change, which ~~would~~ can effect economy in government by lessening the need for revenue. If fully implemented, it would so stimulate production as to generate a natural full employment which would make it unnecessary for the government to tinker with the currency supply or embark upon vast programs of public spending to forestall depression. With the unlocking of natural opportunities presently monopolized, the need for welfare programs would be drastically reduced. Government bodies would not be forced to pay speculative prices to acquire land needed for roads and other public projects. Although the selling price of land would drop, aggregate economic rent would increase, due to expanded production and fuller use of super-marginal land. Thus instead of shrinking, the tax base from rent would actually be enlarged. This has been the experience of many communities in Australia and elsewhere which tax land heavily and exempt improvements. For these reasons, it is not at all improbable ~~impossible~~ that the land value tax might at least ~~indeed~~ be adequate~~, at least~~ for all domestic purposes.

Why Land Value Taxation is Not in Greater Use

Legislatures tend to write tax laws according to the pragmatic approach commonly referred to as "plucking the most feathers with the least squawks." Persons with cohesive vested interests naturally form pressure groups in order to be able to "squawk" effectively, and it is hardly to be wondered at that politicians are responsive to them. A tax on land values is the only tax of any consequence that does not distribute itself. It falls upon the owners of land, and there is no way in which they can shift the burden upon anyone else. Hence, a large and powerful class is directly interested in keeping down the tax on land values, and in substituting, as means of raising required revenue, taxes on other things. There is no group which has a similarly direct and immediate vested pecuniary interest in seeing such a tax instituted, even though the vast majority of people (including even many landowners) would be better off if it were in effect. This is the answer to the oft-raised question as to why, if a tax on land values be so advantageous, so many other taxes are resorted to by most governments in preference to it.

PRACTICAL EFFECTS OF GEORGE'S REMEDY

Lesson IX

Pp. 169-~~183~~ 175

We have examined the justice of Henry George's remedy, and also considered its efficacy as a tax measure. It is now time to look at some of its broader economic and social implications. In doing so, we are not obliged to depend upon mere conjecture. For although the principle of exclusive land value taxation (approaching the full economic rent) has nowhere been fully implemented on all levels of government, there are many instances of its application on a partial scale, with results commensurate to the degree of application.

Probably the three most serious problems of our economy are unemployment, inflation and housing. The first of these may not seem to be a matter for current concern, because of the defense-generated need for manpower, and of the government's policy of artificially inducing full employment by deliberately inflating the purchasing media. However, these are palliatives, not solutions. They provide relief for unemployment without touching its underlying cause. No person of good will could wish for a continuation of military exigencies merely because they lead to spending which creates employment. Inflation as a means of relief constitutes a serious problem in itself, for it raises the cost of living and causes hardship for those whose incomes are fixed or do not rise fast enough to keep up with increased prices.

Effect on Employment

Land value taxation stimulates production, engendering a natural demand for labor. It releases, for productive investment, savings which would otherwise be channeled into sterile speculation. It opens better natural opportunities to labor and capital, and, by making it unprofitable to hold land for speculation, forces idle and underused land into optimum use. This causes a rise in real wages and interest, as the margin rises with the opening of natural opportunities. The concurrent removal or reduction of taxes on labor products creates further incentive to production in three ways: (1) by lowering commodity prices, thus permitting markets to expand; (2) by increasing purchasing power and investment capital; and (3) by doing away with the necessity for much onerous record-keeping and red tape.

Effect on Purchasing Power

When the supply of purchasing media (coins, paper currency and demand deposits) exceeds the value of goods on the market, the value of the purchasing media shrinks accordingly and we have inflation. There are three respects in which land value taxation tends to deter inflation. In the first place, by unlocking natural opportunities now monopolized, it has an effect analogous to bringing back the frontier, eliminating the most fundamental cause of unemployment, and thereby rendering it unnecessary for government to resort to monetary inflation as a mechanism to maintain full employment. Lord Keynes attributed depression and unemployment to what he called "liquidity preference," i.e., a reluctance of capital to invest in productive enterprise. Like a diagnosis of "heart failure" as the cause of death, this analysis is correct as far as it goes. But George supplied the answer to the question of why liquidity preference occurs. When rent soars to speculative heights which transcend the possibility of productive return, productive enterprise ceases to be profitable, and a retrenchment of capital is the logical and inevitable outcome. Since a heavy enough land value tax negates any incentive to speculate in land, rent under it reflects use value only, and cannot discourage productive investment. For this reason, and also because of the earlier mentioned fact that such a tax forces optimum land use, a second way in which land value taxation deters inflation is by so spurring production that for each dollar in circulation a dollar's worth of goods is in process of exchange.

Speculative rent inflates production costs and therefore the prices of commodities. Therefore, a third respect in which land value taxation deters inflation is by reducing prices due to the elimination of speculative rent. It is sometimes said that "rent does not enter into price." This is true in the sense that competition will not permit a manufacturer to charge more for a commodity produced on high-rent land than what the same commodity produced on the margin can bring. But whereas rent does not affect the relationship of individual prices to one another, it does affect the general price level, for as the margin is driven out to less and less desirable land, the cost of production on all grades of land goes up accordingly.

Effect on Housing

"Whence shall come the new barbarians? Go through the squalid quarters of great cities, and you may see, even now, their gathering hordes!" The problem of housing has profound social ramifications which manifest themselves in the agony of contemporary urban life. It is perhaps the most pressing domestic issue facing American society today, and shows every sign of becoming even more acute. For this reason, we shall shall deal with it in relative detail.

Over fifty years ago, Prime Minister David Lloyd-George warned the British Parliament that "low rent public housing bills will never be effective until you tackle the taxation of land values." In 1960, the Mayor's Special Committee on Housing in New York City reached the same conclusion, asserting: "The seemingly unstoppable spread of slums has confronted the great cities of the nation with chronic financial crisis. ... The two billion dollar public housing program has not made any appreciable dent in the number of slum dwellings. ... No amount of code enforcement ... will be able to keep up with slum formation until and unless the profit is taken out of slums by taxation."

Land constitutes a very sizable component of the cost of housing. In urban areas it probably averages at least one fourth of the total value of existing single-residence properties, and more than one sixth of the total value of apartment house properties, according to the National Commission on Urban Problems. Residential land costs have been rising much more rapidly than have construction costs. For example, building materials during the 1950's rose 24%, trade wages went up about 60%, but the price of land increased over 100% -- and many times that in most suburban areas.

Sociologists have long observed that slums usually form a circle around a city's heart. This is because they are composed of properties being held in anticipation of the expansion of the downtown area. During this period, they are allowed to deteriorate until such time as they are sold at vastly appreciated prices for commercial or industrial use. Any improvement means an increase in local property taxes, whereas the more run-down a property is the more it can be depreciated as a federal income tax write-off. Furthermore, slum buildings are so nearly worthless that they carry a very low appraisal; the worse the building the lower the appraisal and the smaller the tax. Meanwhile, the land is seldom assessed at anything even remotely approaching its true market value. According to Professor Frederick G. Reuss of Goucher College, "By overtaxing good housing we first take away much of the incentive to keep improvement values up, but once an area is blighted we reassess it at a low value and thus pay a premium for poor upkeep." Hence our present tax system (if it can be dignified by being called a system) subsidizes slums and penalizes improvements. It harnesses the profit motive backwards, abetting speculation but discouraging development.

Aerial photographs show that there is more than enough land in and around all our cities to meet all our homebuilding needs for years to come. The trouble is that most of it is grossly overpriced and therefore not economically available. "Suburban sprawl" is what occurs when owners of close-in land which is logically ripe for development, hold out for tomorrow's price today, and fail to find buyers who can afford to pay it now. Unable to assemble the tracts they would prefer to buy, developers are impelled to leapfrog out to distant locations where land is still relatively cheap. This creates a wasteful and disorderly pattern of development, making homeowners drive past miles of unused or underused acreage in order to get to and from work, increasing the cost of local government by necessitating the spread of public services and utilities over vast areas of idle land, defying good local land planning, blighting millions of acres of countryside, and penalizing farmers who want to farm instead of speculate. It negates and frustrates the purpose of cities, which is to let people live and work close enough together to utilize and enjoy the maximum efficiency of community facilities and enterprises, with easy access and cheap distribution. It pulls business away from downtown, causing cities to stagnate and finally die at the core.

Land value taxation can reverse the tendency to urban decay and suburban sprawl, and has indeed done so wherever it has been applied. New Zealand, for example, began exempting houses and other improvements from taxation on a local option basis in 1896, putting the entire local tax burden on the land. Today the vast majority of counties, towns and boroughs use this system. It is in effect in every major New Zealand city except Aukland, the only one in which it has been found necessary to undertake slum clearance. Since 1916, Sydney, the largest city in Australia, has derived all its municipal revenue from land value taxation. According to the Sydney town clerk: "The removal of rates [taxes] on buildings encouraged their improvement as well as the erection of many fine new structures. Something in the nature of a transformation took place. ...... The major benefits since this tax came into force include a great expansion in residential, apartment, and industrial building. ...." Land is taxed four times as heavily as improvements in Johannesburg, South Africa. The Chamber of Commerce there asserts that "This system has had a great deal to do with the development of Johannesburg into the premier city of the South African subcontinent." In Pittsburgh, Pennsylvania, improvements are taxed at half the rate applied to land. This approach, known as the "Graded Tax Plan", was put into operation very gradually over a long-term period, and is at least partially responsible for the dramatic renovation which has in recent years made Pittsburgh a model of urban development. David L. Lawrence, for many years Mayor of Pittsburgh, and later Governor of Pennsylvania, endorsed the Graded Tax Plan in the following words: "It has discouraged the holding of vacant land for speculation, and provides an incentive for building improvements. In the distribution of the tax burden, it is beneficial to the home owners."

Land value taxation results in efficient land use. It obviates the over-intensive development in limited areas which takes place when there is an artificial scarcity of sites for building. It makes for more compactness but less crowding. It reduces the cost of local government, and renders it possible for private enterprise to provide wholesome housing for low income occupants, without any government subsidy whatever. It transforms the value of land from a social liability into a social asset.

Effect on Homeowners and Farmers

All landowners, whether their holdings be large or small, are apt to look upon any land reform as being contrary to their interests, and to view with alarm the proposal to shift the burden of taxation to land values. But landowners whose sole interest is landownership are comparatively few. Most landowners have improvements of greater value than their land, and their interests as capitalists and laborers are greater than their interests as mere landowners, although many of them do not realize this. Land value taxation would prove beneficial to them as to all others whose income is derived mainly from their own production. The wage earner would naturally benefit most, but all classes of workers, including merchants, professionals and executives, would find their position greatly improved. The average homeowner has everything to gain by such a change. While the lot on which his house stands would lose its speculative selling value, its utility would remain the same and the elimination of taxes on improvements would reduce his taxes. Since the average homeowner has much more improvement value than land value, this difference should result in a substantial yearly saving. Cheap building sites and untaxed building materials would make it much easier for the prospective homeowner to secure a house free from the worry of a heavy mortgage.

Henry George foresaw that his proposal would meet with particular resistance among farmers. Inasmuch as farmers derive their living directly from the land, it is not surprising that they should feel threatened by the suggestion that the land be made to bear the primary if not the exclusive burden of taxation. Yet in point of fact, most farmers would be far better off if this were done. Since agricultural land values are much smaller than the values of town and city land of equal area, taxes on agricultural land would be proportionately smaller, and in sparsely settled districts would be reduced to almost nothing. Farmers would be freed of the burden of taxes on the buildings, crops, equipment and livestock. Marginal farmers could acquire better land far more easily than at present. The high price of farm land due to land speculation has compelled farmers to shoulder the weight of mortgages, and it is this which has driven so many independent farmers into the class of tenants. Land value taxation eliminates speculative rent, bringing down the cost of acreage to a point within the means of ordinary people who want to farm. Early in this century, Denmark began imposing heavy taxes, both national and local, on land values, with reduction of taxes on improvements. It now collects about 50% of the total annual ground rent. In 1850, Danish farm tenancy stood at 42.5%. Today, 94% of Denmark's farmers own their farms, as compared with less than 64% in the United States.

Australia and New Zealand, where only landowners can vote on matters having to do with local property taxation, have witnessed the adoption of land value taxation by steadily increasing numbers of local taxing units over the years, and its retention by almost all of those which have adopted it. This would indicate that the majority of landowners, who are also land users, find that their interests are best served by such a tax.

Perhaps the most convincing evidence for the practical efficacy of land value taxation is the Hutchinson Report, a survey comparing the six Australian states in terms of the degree to which they use this method of obtaining public revenue. This study is updated periodically, the most recent edition having appeared in 1962. Queensland, New South Wales and Western Australia have much heavier land value taxes and lower improvement taxes than do South Australia, Victoria and Tasmania. According to the Hutchinson Report, in the period considered the first group had increases in land under crops, while the second group had decreases. The value of improvements as compared to land was found to be 151% in the first group, as against only 79% in the second, and was far higher (198%) in Queensland, which collects the greatest amount (54.4%) of economic rent. Factory wages were higher in the first group and larger in purchasing power. Lastly, it was discovered that population was flowing from the second group to the first group, indicating that people in Australia found conditions better in the first group. The inflow for Queensland, the state taxing land values the most, was the greatest.

Answers to Typical Questions

Let us now attempt to answer some typical questions asked concerning the practical application of Henry George's proposal:

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

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

Q. Should 100% of the rent be collected?

A. Strictly speaking, yes. Henry George, however, suggested that a percentage of the rent be left to landowners so as to dissuade them from allowing their titles to become forfeit to the state, which would encumber the government with the trouble of renting lands. The landowners would perform this service, in effect, and retain a percentage of the rent as their "commission." A reasonable commission might be between 5% and 10%, making the tax 90%-95%.

Q. How would the rent be apportioned as between local, state and federal government?

A. One proposal is to collect all rent at the local level: the local governments would pass a percentage on to the state governments, which in turn would pass a percentage on to the federal government. This is the method usually used as between state and local governments when property taxes are levied by the state. It was also used by the federal government when it levied property taxes between 1789 and 1861, apportioned among the states according to population, as specified by the Constitution. Another proposal is to let each level of government collect the rent from respective types of land -- municipalities from land within their areas; states from unincorporated land within their areas; and the federal government from oil fields, mines, forests, waterways and other natural resources which are federally owned.

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

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

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

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

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

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

Henry George School
50 East 69th Street
New York, N. Y. 10021

Draft: 1

THE ECONOMICS OF FREEDOM

formerly titled

Fundamental Economics

LESSON SUMMARIES

are political rather than economic. He insists that apart from the market, where buyer and seller meet for mutual exchange of goods and services, there is no rational way of calculating from an economic standpoint what goods in what quantities should be produced and how they should be distributed. Even where decisions are not consciously based upon military, administrative, or other obviously non-economic considerations, they are governed by the subjective will of the political authority, since in the absence of a market he has no objective way of knowing what people want and need -- at least no way of assessing the relative weight of conflicting wants and needs -- except in terms of his own rude assumptions and personal preferences. Therefore, his allocation of manpower and resources must of necessity be arbitrary.

Mises holds that the only reason rational economic calculation in command economies can occur at all, is that none of them exists in total purity or isolation. Elements of the market, however circumscribed and minor, operate within them to varying degree, and their planners can always look abroad for empirical data to nations where the market operates with relative freedom. It is only thus that they are saved from utter chaos. (Cf. Ludwig von Mises, Human Action [New Haven: Yale University Press, 1949], chap. 26.) It is perhaps worth noting that in Red China, which doubtless comes as close as any nation to having a pure, isolated command economy, arbitrary planning has repeatedly resulted in widespread famine accompanied by enormous surpluses of ~~useless~~ goods.

Whether or not there may ever be valid political reasons for interfering with the free play of the forces of supply and demand, is, of course, a question which must be decided on political and not on economic grounds. Our purpose is to examine the way in which economic forces operate if left to themselves. Only as this is done can intelligent judgments be made as to how they should be interfered with, if at all. Therefore, we shall address our study to the market economy, recognizing that even in the United States its working is in practice distorted by the presence of command elements.

As we proceed with our investigation, it might be well to bear in mind the following questions concerning the market economy: Can it work harmoniously, or are economic dislocations inherent in it? Does an unregulated market give rise to monopolies? Are wide disparities of income inevitable where the market operates without restraint?

<u>Economic Science and Natural Laws</u>

Voltaire once remarked that "It would be very singular that all nature, all the planets, should obey eternal laws, and that there should be a little animal, five feet high, who in contempt of the laws could act as he pleased, solely according to his caprice." Natural laws may be thought of as predictable patterns or sequences of cause and effect. The purpose of any science is to discover them and investigate their workings, so that instead of being crushed by them man can use them to achieve his ends. Whatever more he may be, man is, after all, a part of nature; therefore it is not surprising that his conduct should exhibit predictable patterns and sequences analogous to those found in the rest of the physical universe.

The fact that human beings differ widely from one another has led some social scientists to conclude that there is no such thing as human nature, but if this were true in any thoroughgoing sense it would exclude the very possibility of social science. The laws that govern human behavior must spring from the generic structure of human personality itself.

Because the ~~human~~ personal equation makes it difficult to study human behavior objectively, and because that which is under observation cannot be so readily isolated, controlled, or subjected to quantitative analysis as can purely physical data, the social or behavioral sciences, of which political economy is one, are frequently distinguished from the exact sciences. And indeed, as Henry George is careful to point out, political economy "can never predict exact results but only tendencies." (Progress and Poverty [Hogarth abridgment], xii.) The prestige of the exact sciences is such today that many social scientists have abandoned the grand effort to discover and synthesize broad tendencies so as to arrive at integrated understanding, and instead devote themselves to the mere collection of statistics on trivial and minute topics. The narrowness of their range permits a degree of precision which may be denied to those who seek a wider vision. Yet their results, while they may be conclusive as far as they go, are for the same reason apt to be meaningless and inconsequential. In our study we shall take the bolder approach, mindful of the adage: "Nothing ventured, nothing gained."

Three Basic Economic Laws

~~Free market economic theory rests upon the assumption that there~~ are natural economic laws, the discovery and correlation of which constitutes its task. Economic laws are quite different from statute laws, which, like customs, can change from time to time and place to place. Economic laws resemble instead the laws of mathematics, physics or chemistry in that they hold good everywhere and at all times, regardless of governments or other human institutions. Just as no government can nullify the law of gravity, no government can nullify the law of supply and demand. Both laws can be defied, although scarcely with impunity; neither can be nullified. Economic laws are natural in the sense that they arise spontaneously from human nature;

statute laws are man-made in the sense that they are consciously contrived. To the extent that statute laws are in accord with human nature and the characteristic behavior patterns ("laws") which arise therefrom, they will be realistic and successful. To the extent that statute laws ignore human nature and its laws, they will be futile and pernicious.

Let us now take a look at three important economic laws. Like all economic laws, they stem from the mutual relationship of two psychological facts or fundamental axioms concerning human nature. The first of these (which corresponds to the physical law that motion seeks the line of least resistance) is that man seeks to gratify his desires with the least exertion; the second is that man's desires are unlimited. It should be remembered that these axioms refer to general characteristics of human nature taken as a whole, not to the ideosyncratic or exceptional.

1. The Law of Supply and Demand: This law states in its simplest form that people do not continue to manufacture and offer for sale (supply) things which people do not want (demand) or quantities in excess of those which people want. On the other hand, when people demand something which is not supplied, or more of something than is supplied, supply tends to materialize and/or increase. It is important to note that in economics "demand" means <u>effective</u> demand, that is to say, sufficient satisfaction must be offered in exchange for what is demanded. A hungry man will not cause more corn to be grown or more bread to be baked merely because he is hungry. He must be able to offer something of value in exchange before what he demands is supplied. Assuming that no extraneous motives or conditions are present, this law holds good for all rational human beings.

2. The Law of Competition: Given the same degree of scarcity, goods which offer equal satisfaction will tend to sell at the same price. For example, one would not expect to find two pairs of shoes <u>of equal quality and fashion</u> selling at different prices in similar circumstances and locations. The seller of shoes, in obedience to the economic law of competition, knows that if he puts his prices too high his customers will shop elsewhere. If he puts them too low he will attract more customers but his return will not be enough to meet his expenses and allow him a profit. Prices in the competetive marketplace will not always be <u>exactly</u> the same for similar goods at the same time and place, but they will <u>tend</u> to be the same, for the pressure of the law of competition is always present. Governments may impose regulations to fix the price of shoes and to punish people who sell at a different price. But people will then meet secretly to buy and sell shoes at prices governed by the natural laws of supply and demand and competition. When prices are fixed by governments, the free-market price is called the "black-market" price. Really, it is the natural price -- whatever ethical view we may take of such transactions.

3. The Law of Diminishing Returns: When land, labor and capital are combined in production, if the best return is to be obtained each factor must be in the right proportion. Taking a retail shop as an example, it will be seen that too little space (land) in which to serve the customers would result in a loss of business, even if there were the right amount of staff (labor) and stock (capital). It would be equally uneconomic to have <u>too much</u> space. Similarly, although the space and staff might be in the right proportions, too little stock would mean a loss of sales and too much stock a waste or misuse of captial. An increase or decrease in the employment of any one of the factors of production in relation to the others will result in a loss

of efficiency. The point of equilibrium is known as the point of marginal use of the factors of production, and the tendency for returns to decrease in relation to input (as a consequence of applying the wrong proportions) is known as the law of diminishing returns.

THE FACTORS OF PRODUCTION

Lesson III

Pp. 8-60

Wealth

We have defined political economy as that discipline which treats of the production and distribution of wealth. In order that this definition be meaningful, we must arrive at an understanding of what is meant by "wealth." Unfortunately, this is an issue conerning which economists are not agreed. However, a sensible application of the inductive method should enable us to arrive at a definition which is not arbitrary.

When we speak of wealth, it is important to understand that we are not talking about personal or individual wealth but of the total, aggregate wealth of the community. For political economy, only items which add to the total picture may logically be considered wealth. Items which benefit an individual may be wealth for that individual, but they are not wealth in a generic sense unless they add to the aggregate. Claim of individuals upon one another, therefore, such as money, promissory notes, mortgages, stocks or bonds cannot be wealth from the standpoint of economics, since economics deals with generic phenomena and not with individual cases except as they may serve to illustrate such phenomena. Such things have an exchange value, since they represent the power of obtaining wealth as between individuals or groups of individuals, but they are not truly wealth because their increase or decrease does not affect the total sum of wealth. Any addition achieved by one individual or group is cancelled out by a deduction to another, and the aggregate remains the same. In contrast, the addition of an automobile, a suit of clothes, or a sack of potatoes not only benefits the individual but increases the aggregate.

It is generally acknowledged that in order to be wealth a thing must have exchange value. That is to say, it must gratify human desire, and the demand for it must exceed the available supply. Cabbages ceased to be wealth in Red China when, owing to bureaucratic miscalculation, they were produced in such quantity as to constitute a glut. The residue from making woodpulp had no economic value until a desire for it arose in connection with the manufacture of synthetic fibers. Then it became wealth. Since demand is subject to cultural influence, societies may differ as to what they recognize as wealth. The followers of Mohammed regard pork with loathing; leaving aside the possibility of export, it would therefore not be wealth in a society composed exclusively of orthodox Moslems. Conversely, sheep's eyes, prized as delicacies by many Arabs, do not constitute wealth in Western countries.

All the examples mentioned (automobiles, suits of clothing, sacks of potatoes, pork and sheep's eyes), however much they may vary in exchange value as between different cultures, have two things in common. They are tangible, and they reflect the application of human effort. (Wild pigs and sheep do not become wealth until they have been caught and otherwise readied for the consumer.) Although in everyday parlance, land and natural resources are often spoken of as wealth, we are all familiar with nations such as China and Brazil which are considered poor although possessed of abundant land and natural resources. Similarly, although skills are sometimes spoken of as wealth, there are countries such as Iceland which are considered poor even though they are noted for a high general level of education. Such nations are poor because they are wanting in material goods which human exertion has rendered capable of satisfying human wants, and for which there is a market. Obviously then, although there is a market for both land and natural resources, on the one hand, and for skills, on the other, neither can be classified as wealth since the former is not the result of human exertion, and the latter is not material. In combination, however, they are important elements in its production.

The application of labor to nature produces material objects which, directly or indirectly, minister to human wants. When such objects are sufficiently scarce to have exchange value, they constitute wealth. Wealth may thus be defined as any material thing produced by man, which has exchange value. When we say "produced by man," we mean that it has been secured, moved, combined, separated, or in other ways modified by human exertion, so as to fit it for the satisfaction of human desires.

Land and Rent

Land is one of the three factors in the production of wealth, recognized by nearly all economists. The other two are labor and capital. Although, in contradistinction to labor and capital, land is a passive factor, this by no means minimizes its significance, for without it no production could occur at all. Some automated industries have lessened the importance of labor as a quantity, and production on a very primitive plane can take place without the use of capital, but nothing tangible can be brought into existence without raw materials and standing room on which to work them up.

Strictly speaking, from the standpoint of political economy, we were guilty of redundancy when we referred earlier to "land and natural resources." For the word, "land," as used technically in economics, incorporates all natural resources. It signifies the entire material universe exclusive of man and his products. "Mere areal extent of land . . . does not fully define the term; for land usually is thought of as embracing land resources as well. These include soils, minerals, surface and ground waters, natural vegitation, animal life, and even the atmosphere above the surface. . . ." (Encyclopedia Americana, 1968.) The trees in a virgin forest are land, whereas the timber in a cultivated forest is wealth. When the Zuyder Zee was wholly a finger of the Atlantic Ocean, all of it was land. When the water was pumped out of much of it and contained by dykes, that portion thus made into "land" really ceased to be land and became wealth. In like manner, electrical energy, wild game, and other things which constitute land in their natural state, cease to be land when harnessed or adapted for human use.

In considering how land differs from labor and capital, there is a final very basic point which should be kept in mind. Whereas the supply of labor and capital is elastic and responds to fluctuations in effective demand, the supply of land is fixed. Especially is this true of land which, because of specific location, is uniquely suited to specific uses. Land can be neither produced nor moved to meet demand. High rates of payment attract more labor and capital, just as willingness to pay high prices for consumer goods creates an increase in their supply. With increased supply, competition forces prices down again. In these areas the free market is self-regulating. But land is a natural monopoly, and no increase in the price paid for it can bring about an increase in its quantity and thus force its price back down.

In political economy, the "distribution" of wealth refers to its apportionment among the factors which produce it. Each factor of production has its corresponding avenue of distribution. The share of wealth that goes to land is called rent; to labor, wages; and to capital, interest. "Rent is a return for permission to use that which has _not_ been made by man but which is used in production. Interest is a return for the use in production of things which _have_ been made by man. Wages are the return man receives for the energies he exerts in production." (E. E. Bowen, _Economics Simplified_ [New York: Robert Schalkenbach Foundation, 1948], p. 22.)

Some economists do not accept only three factors of production and three avenues of distribution. Some would add a fourth factor, "enterprise" (organization, management and risk-taking), the return to which is "profit." Upon examination, it may be seen that enterprise is included in the economic term, labor, and that profit (the excess which remains after business expenses have been met) may consist of rent, wages, interest, or any combination of the three. Some speak of a fifth factor, "government," the return to which is "taxes." Insofar as government renders a service, it is, like enterprise, a form of labor. Wasteful government, of course, does not produce wealth at all, but is more apt to destroy it. Taxes can only come from rent, wages and interest. Some economists would reduce the factors of production to two -- labor and capital -- maintaining that land is but a form of capital. But this lumping together of things essentially different results only in confusion. Land is not produced by man; capital is. Land is fixed in quantity; capital is not. The laws governing the returns to land and to capital are totally distinct from one another.

Rent is that part of wealth which is the return for the ownership of land. We commonly speak of paying "rent" for building accommodations or for hiring a typewriter or automobile. Economic rent, however, does not include the payment for permission to use man-made goods of any kind. It is rather confined to that share in the wealth produced which the exclusive title to the use of some part of nature gives whoever is fortunate enough to be its owner. When owner and user are the same person, whatever part of his income he might obtain by leasing his exclusive title to someone else is rent. Another way of putting this is that rent is that part of his income which he would have to pay to someone else if he were not the owner. (Technically speaking, when land is not used to produce wealth, but is used in consumption or is held idle, it has rent potential but yields no rent <u>per se</u>, even if someone may be paying for the privilege of holding or enjoying it. That payment reflects no addition to the sum of wealth, but merely acknowledges a claim on the part of the owner of land having exchange value to command already existing wealth produced from other sources. However, it may be considered rent for all practical purposes.)

<u>Labor and Wages</u>

Political economy defines labor as <u>all human exertion, mental and physical, directed toward the production of wealth</u>. It should be emphasized that the term embraces not merely manual effort but also the use of cerebral energy. The architect is just as much a laborer as is the bricklayer, the steel executive as truly a laborer as the man who digs ore from the ground. Since the production of wealth is not completed until it reaches its ultimate consumer, the advertiser, the shipper, the warehouseman and the retail salesman are all engaged in labor. Broadly speaking, production may also be understood to subsume preservation and maintenance. Thus the curator and the zoo-keeper, not to mention such less exotic functionaries as the mechanic, the clothes-cleaner and the charwoman, may be classified as laborers.

However, the doctor, the lawyer, the barber, the teacher, the clergyman, the actor and the musician are not laborers. They perform useful functions by giving personal service -- helping us satisfy our desires for goods other man material. But since they are not engaged (except sometimes secondarily or indirectly) in the production of wealth, economics does not categorize their work as labor. Neither, for the same reason, does it categorize as labor the expenditure of energy in exercise or sport, or in the creation of objects which lack exchange value.

<u>Wages are that part of wealth which is the return for the expenditure of labor</u>. They are not confined to hourly, daily or weekly payments, as in ordinary usage, but include salaries, fees, commissions, or any other form of payment as long as it is received for work in the production of wealth. Nor are they confined to compensation paid to those who work for others. The owner of a business enterprise earns wages when his managerial services help in the output of the product.

<u>Capital and Interest</u>

There is no unanimity among economists as to what constitutes capital. This is largely because of the careless tendency to introduce into economics habits of thought which properly belong to commerce and accounting. Thus anything which may be used to make a profit (land, skills, etc.) is lumped with capital, and the distinction between the factors of production is altogether lost.

If such ambiguity is to be avoided, we must limit our definition of capital to one which excludes things that fall within the other factors. If we do this, there remain only things that are neither land nor labor but which have resulted from the union of the two. In other words, nothing can be capital that is not wealth. All capital is wealth, but all wealth is not capital. <u>Capital is that part of wealth which is devoted to production</u> (i.e., used to produce more wealth). If we remember that production is not complete until the object is in the hands of the ultimate consumer, we may also define capital as <u>wealth in the course of exchange</u>. Thus, however much a desirable site or a rich vein of ore may give its possessor advantages equivalent to the possession of capital, neither is capital because, not being man-made, they are not wealth but land. However much superior knowledge may augment an individual's income, it is not capital because, not being material, it is not wealth but part of the man's psyche.

The same item of wealth may or may not be capital, depending upon whether it is used for production or for consumption, whether it is in the course of exchange or in the hands of the consumer. An automobile used by a traveling salesman in his work is capital; used for personal purposes, it is not. A potato at the grocer's stall is capital; on his dinner plate, it is not. Tools used by a carpenter are capital; used by a hobbyist, they are not.

Interest is that part of wealth which is the return for the use of capital. It is that part of the increase in his output which the laborer is willing to pay in order that the increase occur. If the laborer uses his own capital, it is that part which he would have had to pay if it belonged to someone else. (What the consumer pays for wealth is, of course, also interest, since the wealth he buys is capital until it comes into his possession.)

Inasmuch as money is not wealth (except to the extent that the metal or paper of which it is made may have exchange value), it cannot be capital. Therefore, money itself cannot earn interest. Money simply represents a claim upon production; it does not contribute to the product. Stocks, mortgages and bonds are only certificates of ownership, and may or may not represent real capital. The return from them is interest only to the extent that they do. Interest does not include replacement of capital or wages of superintendence. Neither, from the frame of reference of political economy, does it include compensation for risk, as it does in common commercial usage. "The higher returns to capital engaged in risky business enterprises are intended to take care of losses and in the long run bring the average return to the ordinary rate." (Gaston Haxo, The Philosophy of Freedom [New York: Land and Freedom, 1941], p. 50.)

The Wage Fund Theory and the Malthusian Theory

Production, although of a crude and primitive nature, can occur without the use of capital. Before capital comes into existence, labor must be applied to land. Capital has been aptly characterized as "stored-up labor," i.e., labor which has been given concrete form by being mixed with land, and which, instead of being dissipated in consumption, is saved and released as needed to aid in the productive process. Therefore, it is evident that capital does not employ labor; it is labor, rather, which employs capital. To say that capital employs labor is to imply that labor cannot be used until the results of labor are saved -- a proposition which is obviously self-refuting. If wages were drawn from capital, as many 19th century economists believed and many naive laymen still believe, there would be no wages where capital had not yet come into being. This erroneous belief is known as the "wage fund theory."

Since wages are not drawn from capital but from production, no real wage increase can take place unless production increases. If money wage increases outdistance production, the result is increased prices and thus no advance in real wages. Real wages and not money wages determine the general level of prosperity. Minimum wage laws, collective bargaining, a guaranteed annual wage, etc., may cause a redistribution of real wages so that those who benefit from these arrangements enjoy an increase. But unless the total sum of wealth produced increases too, their advantage can only come through reducing the wages of others.

Yet although an increase in real wages can only come through an increase in production, an increase in production does not guarantee an increase in real wages. The Industrial Revolution, for example, represented an enormous increase in production. But labor did not benefit proportionally from this increase; indeed, Bertrand Russell and others claim that the living standard of the working population declined, although this is disputed by some authorities. (Cf. F. A. Hayek, ed., Capitalism and the Historians [Chicago: University of Chicago Press, 1954].) Progress and Poverty is in large measure addressed to the question of where the increase in production goes if not distributed as wages.

The wage fund theory and the Malthusian theory are two ways of trying to explain poverty by reference to an imbalance between the factors of production. The former attributes it to a scarcity of capital. It leads to the concept that when, due to such scarcity, interest is high, wages will be low. By thus associating high interest with low wages, it fosters the notion that there is a natural antagonism between what is best for the capitalist and what is best for the worker. Actually, as will be seen in the next lesson, wages and interest tend to rise and fall together. Poverty is often deepest where capital is most abundant and interest correspondingly low.

The Malthusian theory explains poverty by reference to the supposed inability of nature to meet the increasing demands made upon it by increasing population. Population, asserted T. R. Malthus, tends to increase faster than the means of subsistence. Nature yields less and less to the application of labor as population advances, and unless reduced by continence, the advance must ultimately reach a point where it is checked only by premature death resulting from famine, disease, vice, crime and war.

It would appear at first that all the circumstantial evidence supports this view. Hunger and malnutrition are rife in many densely populated areas, and the oft-cited famines in India and other parts of the world seem conclusive indication that population is tending to outrun subsistence.

In point of fact, however, many of the world's most densely populated nations (e.g., Belgium, Holland, West Germany and Great Britain) enjoy standards of living which are among its highest. In countries which suffer from famines and undernourishment, land is generally not utilized efficiently and large areas are idle. In Iran, for instance, the population is only 30 per square mile. Once a rich agricultural country, its people now live in poverty, in spite of oil development. Denmark has ten times the population of Iran per square mile, yet has a very high standard of living in spite of scanty natural resources.

Per capita production is much greater in densely populated communities than in places which are sparsely settled. The increase of population increases the power to produce wealth, as a greater number of people can produce, through division of labor, a larger proportion of wealth than can a smaller number. The material resources of the globe are not even remotely near exhaustion; the bounties of nature remain largely untapped. Matter is indestructible; it is impossible to reduce the sum total of the elements of which the earth is composed. Man is not, like the animal, dependent upon a fixed supply of food. He displays unbounded ingenuity in devising ways in which energy can be released and matter transformed to sustain and nourish life.

While there may be valid arguments for population control, these arguments are essentially qualitative rather than quantitative. From an economic standpoint, mere increase in number should represent a boon instead of a disaster.

Lesson IV

Pp. 61-86

THE LAWS OF DISTRIBUTION

From what has been advanced thus far, it should be plain that poverty is not primarily a problem of production. Theories which attribute want simply to a lack of productive power will not explain it, since want appears, not merely where there is a paucity of capital or where nature is least able to respond to labor, but also where productive power is greatest and the production of wealth largest. The cause of poverty as a general social problem must therefore be sought in the laws which govern distribution. To these we now turn our attention.

The Law of Rent

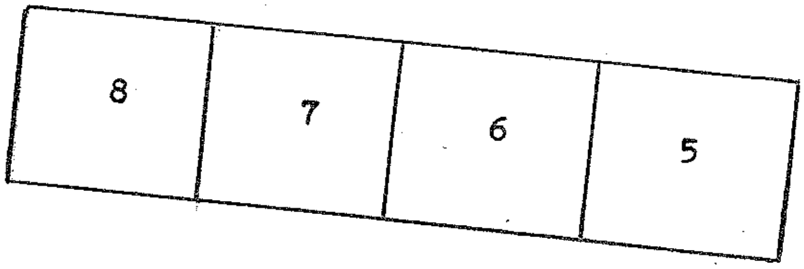
Since the supply of usable land is more or less fixed, fluctuations in land value are almost entirely effected by demand, i.e., by population. Demand, in turn, is based upon the relative capacity, due to location or natural richness, of various sites to produce wealth when labor and capital are applied to them. But no matter what its capacity, land can yield no rent and have no value until someone is willing to give labor or the results of labor for the privilege of using it; and what anyone will thus give depends not upon the capacity of the land as such, but upon its capacity as compared with that of land which can be had for nothing. The best land that can be had for nothing will always be the same as the poorest land in use, since land will not be used if it is poorer than the best free land. <u>The rent of land is determined by the excess of its produce over that which the same application of labor and capital can secure from the least productive land in use</u>. First prominently set orth in the early 19th century and still generally accepted, this rmula is known as "Ricardo's Law of Rent."

Let us be clear that when we speak of the productivity of land, are by no means alluding merely to fertility. Productivity may arise from the presence of subsoil resources. It arises preeminently from convenient location. Thus the most productive land is never agricultural land, but rather land in the heart of population centers where th bulk of trade occurs.

The best free land or the least productive land in use is denoted i political economy by the term "margin of production." It is the area above which rent begins and below which production will not extend, hence the name "margin." (The term "margin of cultivation" was used by earlier economists when the law of rent was thought to apply only to agricultural lands. In commerce the term "margin of production" has a meaning which need not concern us here, different than the one just given.)

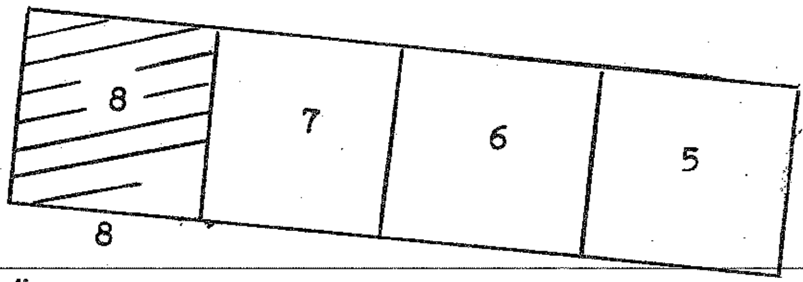
Although marginal land may be productive to the user, it has no selling or rental value in an economic sense because there is nothing to be gained from current production merely by owning it. To demand rent for such land would be to demand that labor and capital take less than could be obtained elsewhere. Labor and capital would then refuse to work such land. Land which will not produce enough to reward labor and capital at the prevailing rates is called "sub-marginal" land, and, of course, will not be used at all.

Let us illustrate the working of the law of rent by imagining the settlement of a virgin country where all land is free. For the sake of simplicity we will assume that all the settlers are equally skillful and industrious, and have the same amounts of capital at their disposal. The diagram represents this country divided into areas of varying productive potential. The figures indicate what each grade of land will yield per nit of labor and capital -- e.g., eight bushels of potatoes for one day's ork, seven bushels for a day's work, etc. In realit are not marked off sharply as on the diagram, but blend into and are interspersed with one another.



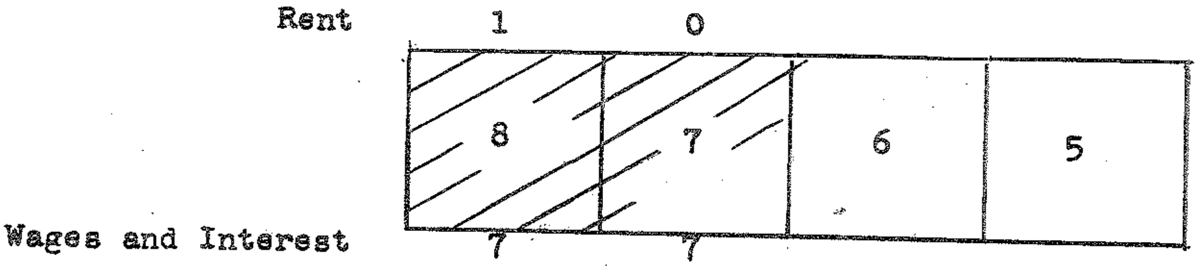
As settlers begin to arrive, they will naturally take up the "8" land, since "men seek to gratify their desires with the least exertion." (Shaded portion represents settled land.) Because the land is free, there is no rent. All they produce goes to reward their application of labor and capital.

Rent 0

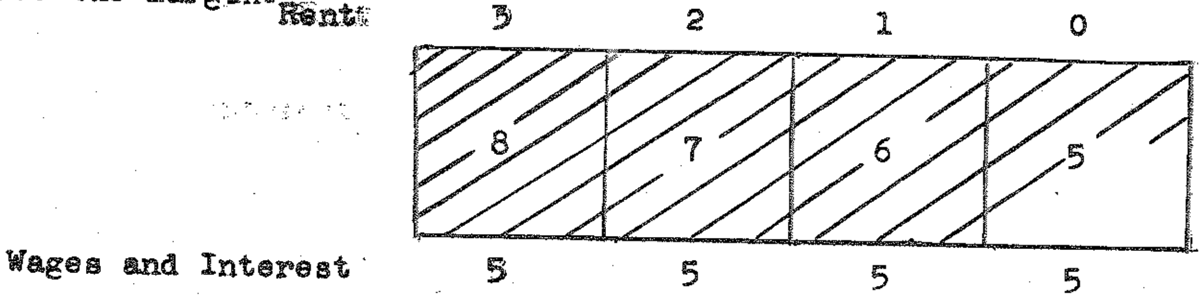


Wages and Interest 8

Eventually, all the "8" land is occupied, and the next comers must resort of "7" land. This land is free and yields no rent. Its entire product goes to labor and capital as wages and interest. This "7" land is now the margin of production -- the best land to be had for nothing. Wages drop to 7 on "8" land, which now yields a rent of 1. If the owner of "8" land wanted to hire labor, he would have to pay 7 in wages, since that is what the laborer could get working for himself on "7" land. (This figure would also include interest if capital were used, labor and capital together constituting the active agent in production.) If a laborer from "7" land wanted to work on "8" land, he would pay 1 to the owner in rent, since he can get no more than 7 working on free land.



Settlers keep coming and "7" land is taken up, so the next comers must go to "6" land, pushing down the margin of production to "6". The amount available for wages and interest now goes down to 6 on all lands. New settlers must next go to "5" land, as illustrated below. The "5" land is now the margin. The amount available for wages and interest drops to 5 on all lands, and rent correspondingly goes up on all lands above the margin.



<u>The Laws of Wages and Interest</u>

Stated reversely, the law of rent is necessarily the law of wages and interest taken together, for it is the assertion that, no matter what the production that results from application of labor and capital, these two factors will only receive in wages and interest such part of the produce as they could have produced on marginal land. If the margin has been pushed out so far that there is no more free land, or if marginal land is not capable of sustaining human life, wages become fixed at the level of sheer subsistence, and interest at a level barely above the cost of capital replacement.

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

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

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

The laws of wages and interest may therefore be stated as follows: <u>Wages depend upon the margin of production (or upon the produce which labor can obtain at the highest point of natural productiveness open to it without the payment of rent), falling as it falls and rising as it rises. Interest will rise and fall as wages rise and fall, according to the margin of production</u>.

Thus rent, wages and interest are all determined at the margin. Together they account for the total distribution of the product. (Taxes, artificial monopoly profits, payment for personal services, etc., are forms of <u>re</u>-distribution.) But whereas everything above the margin goes to rent, the specific amount being determined by the relative desirability of the particular land in question, wages and interest remain at the margin regardless of how much more desirable the land on which they are earned may be.

The three laws of distribution arise from the fundamental principle that men seek to gratify their desires with the least exertion. This principle establishes an equilibrium between wages and interest, as men move to more advantageous opportunities. However, it acts reversely as between rent on the one hand and wages and interest on the other, because land is fixed in quantity, is non-reproducible, is absolutely essential to production, and its ownership confers a monopoly.

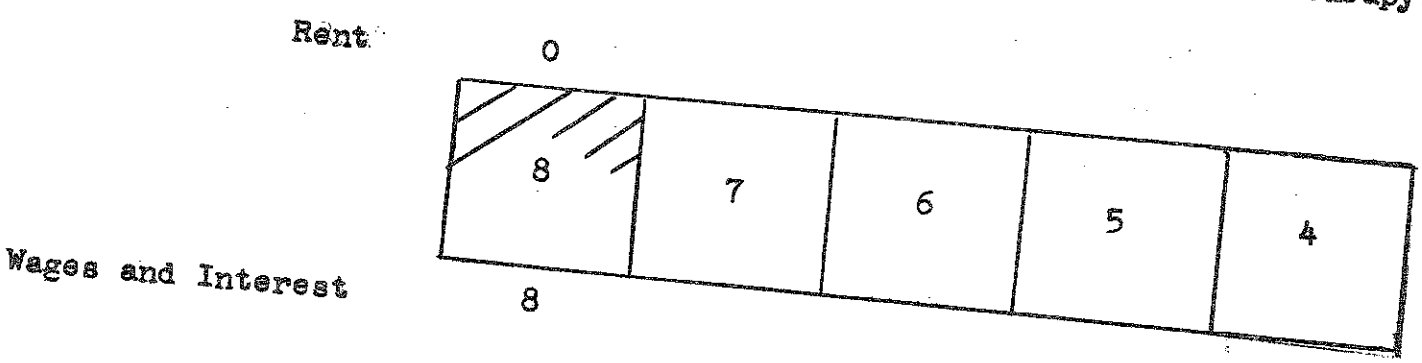
EFFECTS OF MATERIAL PROGRESS

Lesson V

Pp. 87-115

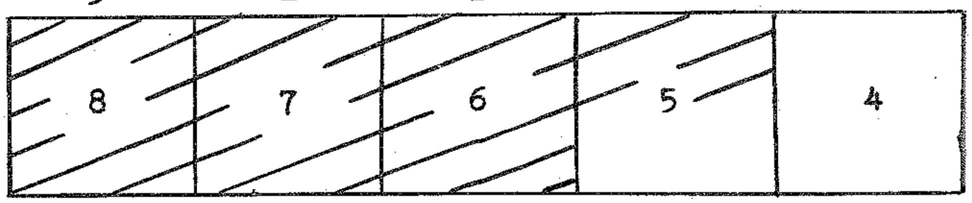
As societies develop, population increases, more efficient means of production and exchange occur, and knowledge, education and technology advance. These all have the effect of enhancing the productivity of land, not just in terms of agriculture and the extractive industries but even more so from the standpoint of manufacturing and commerce. Population density, by encouraging the division of labor and facilitating exchange, brings out in land special capabilities otherwise latent, and attaches special capabilities to particular lands, all of which increases productivity and makes land more valuable. The margin of production is pushed out to poorer land because more people demand more goods, and the production of these goods necessitates more sites and a greater quantity of raw materials. Due to increased production, wages and interest may actually rise as a quantity while falling, because of the extension of the margin, as a proportion of the total product.

Again let us illustrate our point with diagrams. The first diagram represents society when the initial settlers have begun to occupy the best land.



Settlement has now spread out to "5" land. Wages and interest together are now 5 everywhere, and rent is the difference.

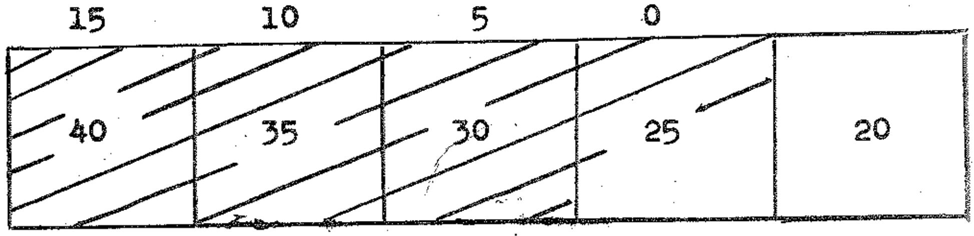
Rent 3 2 1 0



Wages and Interest 5 5 5 5

The next diagram represents the same land after increase in population and material progress have increased productive power fivefold. Wages and interest on the one hand, and rent on the other, have increased accordingly.

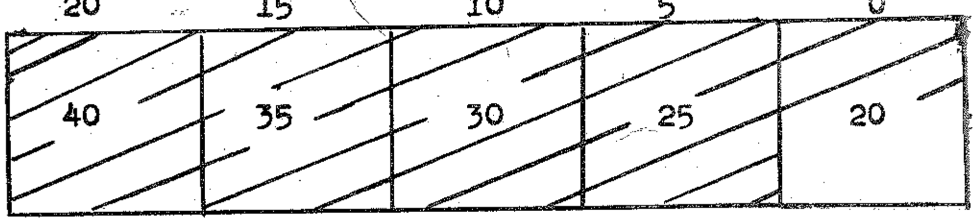
Rent 15 10 5 0



Wages and Interest 25 25 25 25

The margin is now pushed out to poorer land in order to meet the demands of progress. Although wages and interest have declined and rent gone up since the previous diagram, wages and interest are still much greater as a quantity than in the frontier period.

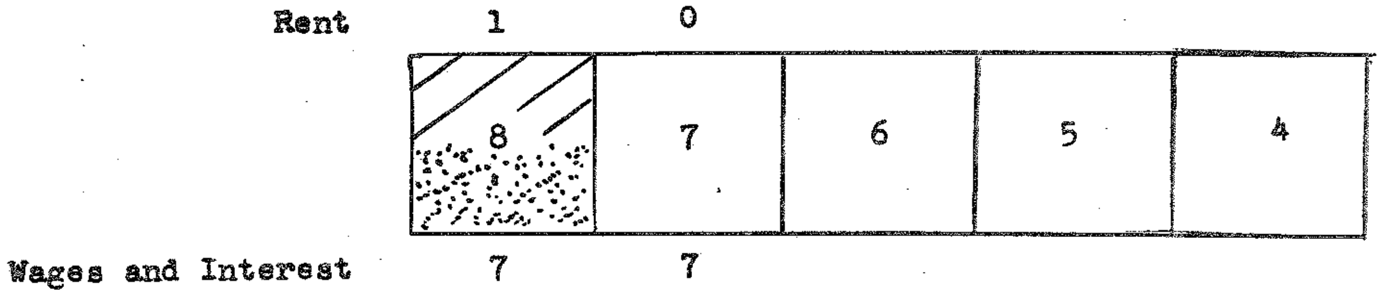
Rent 20 15 10 5 0



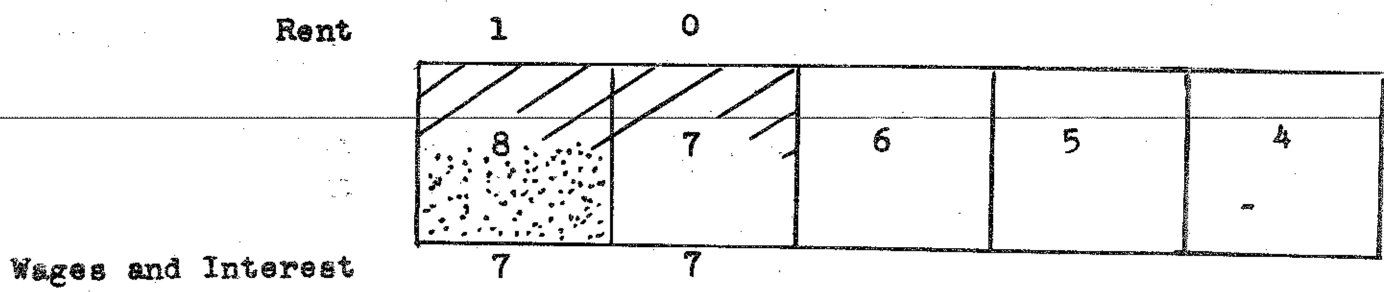
Wages and Interest 20 20 20 20 20

The natural tendency, if the desirable locations are fully utilized, is for productive power to accelerate faster than the margin of production falls, thus advancing wages and interest as a quantity although not as a percentage of the product. However, another element, speculation, alters this movement, as we shall see in the next series of diagrams. As material progress goes on and rent advances, landowners tend to anticipate further increases of rent, and to hold land for a higher price than its current economic value.

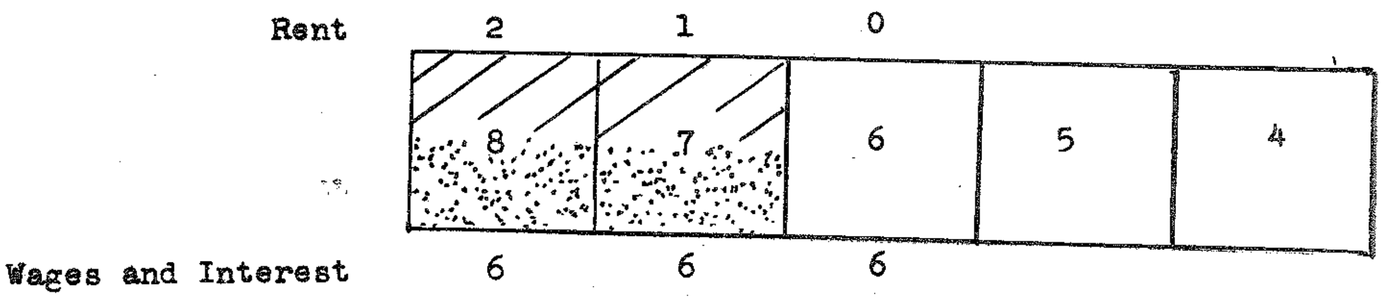
The first comers, knowing that others will follow, and remembering that where they came from land had a value and that the wealthy class owned large areas of valuable land, take more land than they themselves can use. (The diagonal lines indicate land in use, while the dotted spaces indicate land held for speculation.)



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

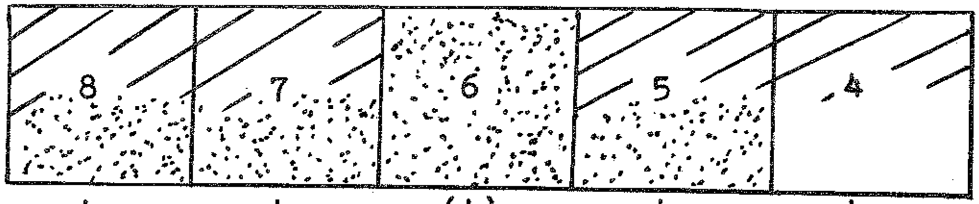


The next settlers appropriate in turn more land than they can use.



And so the following settlers are forced out increasingly further. (Since no production actually occurs on "6" land, the figures for rent, wages and interest on it are enclosed in parentheses.)

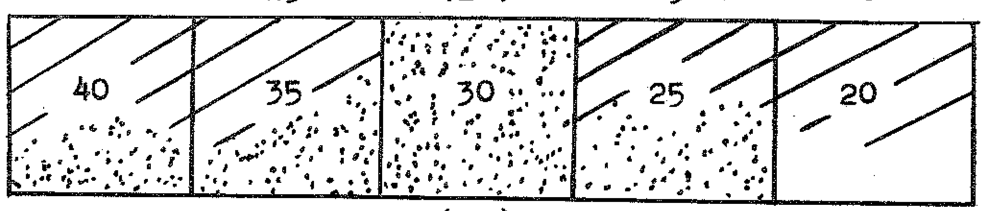
Rent 4 3 (2) 1 0



Wages and Interest 4 4 (4) 4 4

The next diagram represents the same situation as the last, but with productive power increased fivefold. The distribution is the same as in the earlier diagram which showed productive increase. However, in this case the reason for the distribution is not that the supermarginal land is all in use, but that the margin has been pushed out prematurely due to speculation. In this illustration, wages and interest, in spite of speculation, are still higher as a quantity than in the frontier period. But in the advanced stages of monopolistic speculation, the proportion taken by rent absorbs the quantitative increase which material progress has brought to wages and interest. When the margin is finally extended to land which is incapable of supporting human life, wages and interest are fixed by the requirements of bare subsistence. The land-owner has no economic incentive to permit labor and capital any greater share than that which enables them to survive and keep his land producing. This is what long ago took place in many parts of Asia, Latin America and Southern Europe.

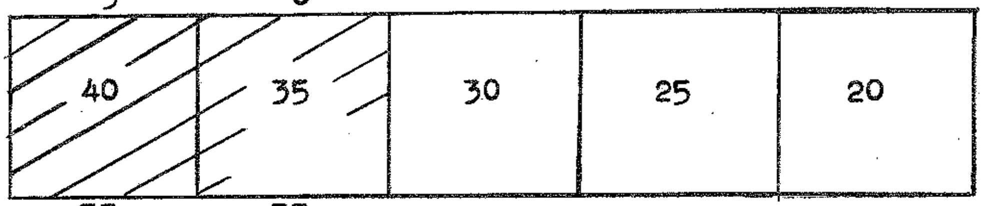
Rent 20 15 (10) 5 0



Wages and Interest 20 20 (20) 20 20

The final diagram shows what the situation would be like after the increase of productive power if there had been no speculation, assuming the same degree of settlement as in the two preceding diagrams. The margin is closer in because the most desirable locations are being used instead of merely held. There is the same amount of labor and capital as in the last diagram, but they are accommodated on better land. Consequently, wages and interest are higher, and rent is lower.

Rent 5 0



Wages and Interest 35 35

We have seen that the lion's share of the increased production which material progress makes possible goes neither to labor as wages nor to capital as interest, but is taken as rent for land. The high prices charged for the better grades of land either prevent producers from using these lands or take from them, in rent, much of what they produce there. Material progress cannot rid us of our dependence upon land; it can but add to the power of producing wealth from land; and hence, when land is monopolized, progress might go on to infinity without increasing wages or interest or improving the condition of the average man. It can but add to the value of land and to the power that its possession gives. Thus, "The ownership of land is the great fundamental fact which ultimately determines the social, the political, and consequently the intellectual and moral condition of a people." (Progress and Poverty, p. 295.) [unabridged]

We may boast of our free institutions as having molded into the American character the sturdy spirit of individualism and independence. But, as the great historian, Frederick Jackson Turner, emphasized in his classic essay on the influence of the frontier, the one thing which more than any other contributed to form this indomitable American spirit was the existence of plenty of free land. In 1751, Benjamin Franklin wrote: "Notwithstanding the increase in population, so vast is the territory of North America, that it will require many ages to settle it fully; and until it is settled fully, labor will never be cheap here, where no man continues long a laborer for another, but gets a plantation of his own; no man continues long a journeyman at a trade, but goes among these new settlers and sets up for himself."

But the frontier has now practically vanished. There is now almost no land worth using for which rent must not be paid. With the passage of time, landownership concentrates into fewer and fewer hands, the margin is pressed further and further to the point of bare subsistence, and the conditions of the New World tend to resemble more and more those of the Old.

There is a very general impression that it is the capitalist who receives most of the benefits which come from material progress. So long as the distinction between capital and land is not clearly recognized, it will not be seen that the power given by the ownership of capital to preempt wealth is relatively slight, while the power given by the ownership of land is exceedingly great. It is true that the same individual or corporation may be, and often is, both capitalist and landowner; which fact is largely responsible for the confusion. Often when this economically dual individual or corporation is charged with exploiting labor, he, or it, is denounced as a greedy capitalist. But the power to exploit labor resides in the ownership of land, not in the ownership of capital.

Speculation in Land and in Commodities Compared

The harmful results of speculation in land are not paralleled by the results of speculation in labor products. Given free competition, any ill effects from speculation in labor products must be very temporary. If speculation in any given product raises its price, the increased price will attract others to the making or the raising of that article; and this increased production, with free competition in marketing it, will bring the price back to the normal level. Then, too, wealth begins to deteriorate as soon as produced. If it is not sold after being produced (often very soon after) it tends to become worthless; therefore, speculation in a labor product can raise its price only for a comparatively short time -- until competetors can bring similar goods, or other goods which will answer the same purpose, into the market. And, if consumers refuse to buy at the higher prices set by the speculator, even this temporary advantage is lost to him.

Land, on the contrary, is a fixed quantity. When its price advances, no one can bring that price down again by producing more land! Nor does land need to be sold at any particular time, for it does not deteriorate while being held out of use -- its value may increase even while unused, a phenomenon characteristic of only a few labor products, such as antiques, which have little significance in the total economic picture. Customers may refuse to buy a labor product when they consider its price too high; labor cannot refuse to use land. Therefore any hardship caused by speculation in commodities is trivial in comparison with the hardships caused by speculation in land.

Some Further Thoughts on Interest

We have mentioned the fact that wealth begins to deteriorate as soon as produced. Therefore, since capital is a form of wealth, a loss will occur if it is not used. There is an apparent contradiction between this proposition and the proposition that interest is the return for saving.

Upon analysis, however, this contradiction turns out to be only a semantic one. When we speak of saving capital we do not mean keeping it idle. And when we speak of using capital, we do not mean using it for consumption. Although wealth used for consumption may have started out as capital, it ceased to be capital when it came into the consumer's hands. (Capital consumed in production is not, of course, used for consumption.)

But capital, if used efficiently, does more than merely replace itself. When wealth is used in production, it yields an excess over its replacement and the return to land and labor. This excess is interest. It represents a return over and above the expenditure of effort, which the passage of time in conjunction with the dynamic powers latent in life itself, rewards productive abstinence from consumption. The return may be qualitative, as when grape juice, properly prepared and stored intead of drunk, turns into wine. Or it may be quantitative, as when a cow and a bull, penned and cared for instead of eaten, reproduce.

While many things, it is true, have no innate power of increase, the interchangeability of wealth necessarily involves an average between all its species, of any special advantage which accrues from any particular species. No one would keep capital in one form when it could be changed into a more advantageous one. "It is this general averaging or as we may say, 'pooling' of advantages, which necessarily takes place where the exigencies of society require the simultaneous carrying on of the different modes of production, which gives to wealth incapable in itself of increase an advantage similar to that which attaches to wealth used in such a way as to gain from the element of time." (Progress and Poverty, [unabridged] p. 185.)/ When one reflects upon the manner in which interest thus arises from saving augmented by the vital forces of nature in the course of time (and from the exchange of wealth produced thereby for other wealth), one is struck anew by the absurdity of the Marxist claim that it consists of wages which have been witheld from labor.

PROPOSED REMEDIES FOR A SICK ECONOMY

Lesson VI

Pp. 116-131

Critics of the market economy condemn what they regard as its inherent propensity to concentrate wealth in a few hands, and its tendency to exhibit periodic booms and busts. Gustavus Myers, in his History of the Great American Fortunes, a still-influential book written in the first decade of the century, tried to show that free enterprise was a failure because it led to immense aggregations of monopoly power and privilege. A close examination of the book, however, indicates that what, without realizing it, Myers really showed was simply that free enterprise had not been allowed to operate fully -- that government had intervened in the market on behalf of favored individuals and groups, giving them special advantages in the form of franchises, tariff protection, contracts, and grants of public land. (The Rev. Edmund A. Opitz of the Foundation for Economic Education was the first to call attention to Myers' self-deception.)

Since then, much legislation has been passed to curb and regulate monopolies of capital and labor, much of which ignores the fact that, whether directly or indirectly, they are mainly government-created. In analyzing the present economic ills of our society, contemporary emphasis is chiefly focused on the role of these two factors. In contrast, the factor of land receives scant stress in current discussion. Yet, as we have seen, George demonstrated the radical importance of this factor, an importance which has in no way diminished since the time he wrote.

In dealing with the enigma of poverty amid advancing wealth, George addressed himself to the phenomenon we call depression, and, while not denying the existence of other contributory reasons, located its most basic cause in monopolistic land speculation. Such speculation forces rent beyond its economic level, as land owners demand the fruits of future production in the present. Finally a point is reached where what is demanded in rent is more than the land can produce if any incentive is left for the application of labor and capital. Entrepreneurs are unable to continue production on these terms, and the result is a slowdown in economic activity. There is a reluctance to invest in productive enterprise, precipitating mass unemployment. With mass unemployment comes a shrinkage in purchasing power, leading to further slowdown in production and still greater unemployment.

A study of America's biggest panics and depressions (1837, 1857, 1873, 1893, and 1929) indicates that all of them followed periods of inflated land value. (Cf. Homer Hoyt, One Hundred Years of Land Values in Chicago [Chicago: University of Chicago Press, 1933].) However, almost four decades have now passed without a depression. This is undoubtedly due in part to the fact that during much of this period the economy has been stimulated by military spending. It is also due to certain deliberate economic policies employed by government. But these policies may be only temporary in their effect, postponing the collapse to an even more catastrophic day of reckoning.

In the light of our study of the laws of distribution, let us now examine some of the major solutions to the problem of poverty which have been and are currently being advocated.

1. Economy in Government

Any reduction in the amount taken from the aggregate produce of the