An Outline of George's "Progress and Poverty"

(Note—This article if of particular value because it appeared in Mr. George's paper the "Standard", December 10, 1887, when he was in active charge of the paper; it was written for the busy man so that "he who runs may read"; it appeared near the end of the "first decade," before the name "Single-Tax" was well established, and before there was a suggestion that Georgeism or Single-Tax was merely a "movement for the taxation of land-values,"—before the movement was presented as a tax reform or fiscal measure.—C. LeB. G.)

TO A COLLEGE PROFESSOR

My Dear Professor—I am sorry your duties, which, as you say, are not in the line of political economy, make it so difficult for you to find time to read Henry George's "Progress and Poverty." I am sure you would not only be convinced of the truth of its conclusions, but also enjoy its pure English and simple eloquence. I will endeavor, however, to outline it for you as you request.

Mr. George begins with this inquiry: "Why, in spite of increase in productive power, do wages tend to a minimum which will give but a bare living?" And in seeking for an explanation he first examines the laws of production and then the laws of distribution, taking nothing for granted or upon authority, but clearly defining every equivocal term and proving every proposition that is not axiomatic.

The terms whose meaning it is necessary to understand at the outset are wealth, land, labor and capital.

Wealth does not include all things having an exchange value, but only things the production of which increases and the destruction of which decreases aggregate wealth, namely, natural materials that have been modified by human exertion so as to fit them for the gratification of human desires. Thus: Slaves are not wealth, nor are notes, bonds, mortgages, stock or money; but houses, food, clothing and so on are wealth. **Land** means the earth's surface, but because ownership of the earth's surface includes ownership of all natural materials, forces and opportunities, either on, above or below the surface, the term comprehends the whole material universe outside of man himself. **Labor** means not alone manual toil or the work of a hired servant, but all human exertion in the production of wealth, howsoever and by whomsoever it may be performed. **Capital** is wealth in course of exchange or transmutation for the production of greater wealth. Being wealth, capital cannot consist of slaves, bonds, mortgages or money, but must be composed of some natural material which has been modified by human exertion; it must be distinctively a labor product and not any mere representative of a labor product. It is distinguished from wealth proper by its use. Wealth in hand for consumption, as the house one lives in, or the food in his larder, or the clothing in his wardrobe, or his family carriage, is wealth proper; but wealth in process of exchange, as the house one rents to another, or food supplied by an innkeeper, or stock in a clothing store, or carriages in a livery stable, or wealth in process of transmutation, as grain in a flouring mill, or ore at a furnace, is capital.

If you will take the pains to understand these terms and to apply them to the common affairs of business life, you will readily see that the primary factors of producing wealth are **land and labor**; that wealth supplies a secondary factor, **capital**, and that no other factors whatever enter into the production of any of the things that we enjoy.

Having done that you will have mastered nearly all that is hard to understand in the philosophy of Henry George and be able to detect most of the fallacies of your friend, the professor of political economy. When, for example, he tells you in one breath that the factors of production are land, labor and capital, and in the next that labor is capital, or when he tells you that wealth is a product of labor after having informed you that land is wealth, you will be able to ask him some questions that he can't answer.

Having learned the meaning of the term "labor," you will have no difficulty with respect to the term wages. It is that part of wealth which rewards the labor that produced the wealth. Mr. George's inquiry, therefore, may take this form: Why, in spite of increase in the power of producing wealth, does that part of wealth which rewards the labor that produced it tend to a minimum which will give but a bare living?

The old political economy, as your friend the professor of that science will inform you, accounts for it on the theory that wages are fixed by the ratio between the number of laborers and the amount of capital devoted to the employment of labor, and that the constant increase of laborers tends to follow and overtake any increase of the "wages fund." You will readily see that this theory takes no account of any wages except wages paid to a hired person for services, and will perhaps wonder that such an illogical method should find place in any science; but never mind that for the present. Even such wages are not drawn from capital, as Mr. George shows, but from the product of the labor for which they are paid. Remember that wages are not money; money is a mere medium of exchange. Wages must consist of wealth in some of its forms, and there soon would be no wealth if labor did not keep up the supply. That part of wealth which rewards labor must first have been produced by labor. The fact that wages cannot permanently exceed the produce of labor is conclusive that there is no fund from which they can be drawn save that which labor creates. There can be no permanent discharge at the faucet unless there is a constant supply at the bung. The most that might be said for capital is that it advances wages to labor; but even that is not true. Laborers invariably give to an employer more than the value of their wages before getting their wages.

But seeing a large office building going up across the street, and knowing that the workmen get their wages every Saturday, while the owner may not get any returns from the building for months, you may say, "Surely, here is a case in which wages are advanced from capital!" You are mistaken. Ask on one Saturday how much that building is worth, and then ask on the following Saturday and you will find that the workmen have increased its value meantime by much more than the wages paid at the end of the week.

The use of money gives plausibility to the "wages fund" theory by disguising the nature of the transaction in its form. But if a man who makes shoes is paid in shoes, there is no doubt that he produces his wages before he gets them; and though he be paid in money, if it is money he produces, as in the case of car conductors, there is no doubt.

You may select any illustrations you please, and upon consideration you will be convinced that in each case there is an advance of wealth from labor before there is any delivery of wealth to labor. But if doubts still linger, let me beg of you to read chapters 3 and 4 of book 1 of "Progress and Poverty" rather than risk a false conclusion from my brief explanation.

You may well ask, however, if wages are not drawn from capital, what are the functions of capital. That question Mr. George answers by showing that it increases the power of labor in three ways: (1) By enabling it to use tools; (2) by enabling it to avail itself of the reproductive forces of nature, through planting vegetables or breeding animals, and (3) by permitting the division of labor.

Now, if wages are not drawn from capital, but are produced by the laborers before he receives them, the tendency of wages to a minimum cannot be due to deficiency of capital. Are they, then, diminished by the decreasing productive power of labor or by decreasing productiveness of land?

It cannot well be maintained that the productive power of labor has deteriorated; but it is asserted that the productiveness of land is so limited as to make the procurement of subsistence progressively more and more difficult. This, you know, is the famous Malthusian theory, by which responsibility for diminishing returns to labor in spite of increase of productive power is put upon the Almighty. Mr. George completely demolishes it in a singularly interesting criticism in "Progress and Poverty." Of course you cannot expect me to recapitulate his arguments or repeat any of his striking illustrations; and perhaps it will not be necessary for you to read them in his book, for you will hardly cling to such a theory as of any present importance, against the obvious fact that so little of our planet is yet in use.

Having advanced thus far Mr. George found, as you will find, that the explanation of the tendency of wages to a minimum is to be sought for not in the laws that bound the production of wealth, but in the laws that govern its distribution. But before you proceed it will be necessary for you definitely to understand the meaning of two more terms, rent and interest. **Rent** is that part of wealth which pays for the use of land (using the term "land" as already defined) from which the wealth was produced. **Wages**, as I have told you, is that part of wealth which rewards the labor (using the term "labor" as already defined) which produced the wealth. **Interest** is that part of wealth which includes all returns for the use of capital (using the term "capital" as already defined) in producing the wealth. The last term does not refer to interest on loans of capital merely, nor does it include compensation for risk or monopoly profits.

These are the three great divisions of wealth in distribution. In the last analysis there are only two, for capital is merely a form of labor and interest a form of wages; but in deference to established terminology and modes of thought Mr. George has consented to make the usual distinction. Continuing to observe this tripartite division, you will see that in distribution wealth flows in three different streams, **rent** going to the owners of land, **wages** to laborers and **interest** to the owners of capital.

I need only call the attention of a man of your intelligence to the fact that these three streams do not flow necessarily to different individuals. The landowner may have done all the work and furnished all the capital, in which case he gets all the product; or he may have done the work and borrowed the capital, in which case he gets all but replacement and interest; or he may have furnished the capital and hired the work, in which case he gets all but wages; or he may have leased the land, in which case he gets only rent. But that makes no difference; the economic truth that wealth is distributed in these parts remains whether the parts go to three individuals or to one.

The laws of distribution are obviously laws of proportion, and must be so related to each other that any two being given the third may be inferred; but if you talk with your professor of political economy you will find that his notion of the laws of distribution will not bear the test of this principle. Mr. George is not open to that criticism.

Take, first, the law of rent, as George explains it. Having learned the definition of rent you will not confuse it, as is sometimes done, with the term as used in common speech; it does not include payments for the use of buildings or improvements of any kind, but only such payments as are for the use of land, a term the meaning of which you must also be careful to keep in mind at this point. Nor does rent exist only when owner and user are different persons; when owner and user are the same person, whatever part of his income he might obtain by letting his land is rent. And when land is bought and sold, the purchase price is rent capitalized. Now, rent does not arise from the usefulness of land. A piece of land may be never so useful, but if there is another piece unowned, which, all things considered, is just as useful, the first piece will command no rent. Nor does labor applied to land give rise to rent. Though the labor of ages were expended upon a piece of land, if there were another piece unowned, which, all things considered, offered an equal natural opportunity for improvement, the first piece would command no rent. Remember this; it is a truth which you can verify by observation every day of your life, that 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 he will give depends, not upon the usefulness of the land but upon its usefulness as compared with the usefulness of land that is not owned. Rent, therefore, does not represent any help given to production, but simply the power of securing part of the results of production.

The law of rent, commonly known as Ricardo's law, is thus stated by Mr. George: "The rent of land is determined by the excess of its produce over that which the same application can secure from the least productive land in use." And this law applies, not alone to agricultural land but also to all natural agencies, such as mines, city lots, water privileges, and so on.

You will now be able to see that of wealth produced, all over the amount that the labor and capital employed could secure from free land, is rent. Thus: If a given amount of labor and capital can produce 50 bushels of corn on a certain acre of land, 75 bushels on a certain other acre, and 100 bushels on a certain other acre, and the first acre is free land, the rent of the second acre will be 25 bushels and of the third acre 50 bushels, while 50 bushels on each acre will be wages and interest. From this it follows that wages and interest do not depend upon the produce of labor and capital, but upon what is left after rent is taken out, or upon the produce which they could obtain from the poorest land in use.

You ought now to understand why it is that wages and interest do not increase with increase of productive power, for, manifestly, it is only when the value of land fails to increase as rapidly as productive power, that wages and interest can increase with the increase of productive power, and a review of the industrial history of any progressive community will convince you that the value of land increases as fast if not faster than productive power.

I will not take the space to outline Mr. George's explanation of the law of interest, by which the ratio between interest and wages is determined, but content myself with its statement. If you wish to investigate it, read chapters iii, iv, and v of Book III, "Progress and Poverty." The law of interest is this: "The relation between wages and interest is determined by the average power of increase which attaches to capital from its use in reproductive modes. As rent arises, interest will fall as wages fall, or will be determined by the margin of cultivation."

The margin of cultivation is the rent line, which separates the poorest land in use from better lands. The poorest land in use, as you have already seen, bears no rent. If poorer land is forced into use, the margin of cultivation falls, and with it interest falls while rent rises; if the poorest land in use is abandoned and better land takes its place, the margin of cultivation rises, and with it interest rises, while rent falls.

Now turn to the law of wages. Of course you understand that there is no common rate of wages as there is a common rate of interest, for wages, which include all returns to labor, vary with the different powers of individuals and as between occupations; but you also understand that there is a general relation between all wages, which is clearly expressed when we say that wages are higher or lower in one time or place than in another. When the lowest kind of wages are low, the highest kind are also low, and vice versa; so, for all purposes of generalization it is quite correct to speak of a common rate of wages.

You will recognize it as a law of human nature that all men seek to gratify their desires with the least exertion. This law tends to make a wages level. One man will not work for another for less than he could make by working for himself, and the other will not pay him more than he could make by working for himself. So, you see, although workers want to get as much as possible and employers to pay as little as possible, wages will seek a level at the point of highest productiveness open to labor, which is the lowest point at which production continues. The lowest point at which production continues, as you have already seen, is the margin of cultivation — the line that separates the poorest land in use from better lands. At this line rent practically does not exist, and the whole product goes to wages or to wages and interest together. As you proceed upward from this line you find a rising scale of rent, but no increase of wages for the same work. Hence, the law of wages is in correlation with the law of rent, rising as rent falls and falling as rent rises, and as interest is but a subdivision of wages, interest also rises as rent falls and falls as rent rises.

If now, knowing these laws, you were asked why wages do not increase with increased productive power, you would no doubt say, guided by observation, that it is because rent increases as rapidly as productive power. The same laws explain why wages tend to a minimum. Increase of population and improvements in the arts and in government make greater demands upon land, which must be satisfied by resorting to poorer land; not poorer in fertility, necessarily, but in opportunities for general production. This being done, the margin of cultivation is lowered, and wages are consequently depressed, a tendency that persists until the wages of the lowest paid labor affords only a bare subsistence.

This forcing of poorer land into use, however, would be a slow process if it were not that the certainty of denser population and greater improvement generates speculation in land, whereby land not yet required, but which it is expected will be required soon, is appropriated and kept out of use. In that way the margin of cultivation is abnormally lowered and wages depressed earlier and more rapidly than they would be if poorer lands were taken up only as they were required for use. This speculation results in bringing into use the very poorest land while better land is held out of use. So, as things are now, we might well say that the rent line separates not merely the poorest land in use from better land, but actually the poorest land from all other land. That being so, it follows that the rate of wages is fixed by what labor can produce from the poorest land. Hence, poverty, immorality, ignorance, business depressions, diseases and crime.

What shall the remedy be? Mr. George proposes to abolish all taxation save on rent or land values. We now tax personal property, land improvements and land value. By abolishing the first two we make no change in our machinery of taxation, we cause no revolution in government, we simply cease taxing two kinds of property that are now taxed. But think of the beneficial effect. When men could produce personal property without being fined for it they would produce and enjoy without stint, improving quality when surfeited with quantity, and when they could improve land without being taxed for it they would not cease improving. But more than this: As it would not be profitable to speculate in land, the margin of cultivation would be raised by the abandonment of good land now closed to labor, and wages and interest would rise accordingly. Here would be a double incentive to production—higher wages and higher interest with no taxation. Of course rent would still exist, but in lower degree, and would be devoted through taxation to the general good.

There is just one plausible objection to this system of taxation. By what right do you tax one kind of property for public use and exempt all other kinds. The answer is simple. The kind of property —rent—that Mr. George proposes to tax exclusively, is not produced by the owners. It is a value which attaches to the surface of the earth: the surface of the earth was not produced by the owners, but is a gift of God to mankind upon which and out of which they must all live, and the value that attaches to it, that value you have now learned to distinguish as rent, is produced not by any effort of the owners but by the demands of all members of the community operating upon lands of varying quality. Rent, then, rightfully belongs to the community while wages and interest rightfully belong to the individuals respectively by whose exertions they are produced; and it follows that we have no right to tax wages and interest, while it is not only our right but our duty as a community to tax rent.

I have thus endeavored briefly to outline Mr. George's famous theory respecting the single tax. Unfortified by his convincing arguments and unilluminated by his wealth of concentration, it may not be convincing, and I am sure it will not be diverting; but if it removes some of your cranky notions respecting the land question for which you are indebted to enemies, some of whom are superficial and others malicious, I shall be gratified and sufficiently rewarded; and if it excites your curiosity so that you take the time to read "Progress and Poverty," I shall be pleased beyond expression. With great respect, truly yours,

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