

Progress and Poverty

Class #5 – The Laws of Distribution (Book III, 2nd Half)

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October 31, 2018

Introduction / Teaching Tools

How course is taught:

- Yes, there's a YouTube video for live-streaming and archiving, but
- You must visit WWW.HGSSS.ORG to access these slides of the Class lecture
- Read ***Progress and Poverty*** before class, otherwise, questions may not be answered; rather, I may advise you to re-watch the prior lectures
- ***Alert: New intellectual gutter term – labor productivity***

Progress and Poverty

Class #5 – The Laws of Distribution

Chapter 4: Of Spurious Capital and Profits Often Mistaken for Interest

Chapter 5: The Law of Interest

Chapter 6: Wages and the Law of Wages

Chapter 7: Correlation and Coordination of These Laws

Chapter 8: The Statics of the Problem Explained

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Introduction

- 19th century saw great increase in wealth productive processes (p. 3)
- Production scale and subdivision increased, efficiency of labor increased (p. 3)
- Shouldn't benefits go to labor? Poverty a thing of past?
- An immense **wedge** is forced **through society**, not underneath it; people are elevated or crushed (p. 9)
- Poverty with Progress – great enigma of our times (p. 10)

Introduction

What do the charlatans and demagogues say (p. 11)?

- Conflicts between labor and capital
- Machines are evil
- Competition should be restrained
- Interest should be abolished
- Wealth is created with the issuance of money
- It's the duty of government to furnish capital or work

Introduction

What is political economy (p. 11)?

- Not a set of dogmas
- Explanation of a certain set of facts
- Science that seeks to trace mutual relations and to identify cause and effect
- Lays its foundations upon firm ground
- Premises are truths that have the highest sanction
- Axioms that we all recognize, to base actions of everyday life

Introduction

What is political economy (p. 12)?

- Men seek to gratify their desires with the least exertion
- An exact a science as geometry
- Seek the law that associates poverty with progress, and increase want with advancing wealth
- Thereby explain recurring seasons of industrial and commercial paralysis

What was Henry George Promoting?

- All the result of natural law – harder times, lower wages, higher rates of poverty, like gravitation (p. 394)
- But humans can intervene on laws of nature, by creating institutions / social adjustments that ...

BEND SOCIETY TOWARD JUSTICE

Progress and Poverty

An inquiry into the cause of industrial depressions and of increase of want with increase of wealth ... **The Remedy**

Progress and Poverty

It is important to note that this book was available 5 years after the start of the **1874 depression** in the U.S.

Progress and Poverty

“I am not writing a textbook, but only attempting to discover the laws which control a great social problem” (p. 49)

Progress and Poverty

George speaks from a **community perspective** (pp. 40, 44) regarding capital and wealth; increases in land values are not increases in community wealth.

Stopping inequality does not make wealth equally distributed; there is just a better chance that it COULD be.

Concern for **“aggregate” wealth**, not individual wealth (p. 41)

There may be **relative wealth** in a community, yet with a few drops of ink it could be utterly annihilated (p. 40)

Progress and Poverty

Henry George makes socialism superfluous

Progress and Poverty

Henry George was not talking about **avoiding reading your assignments** when he described ...

desires being satisfied with the least exertion

CONTENT

Introduction

Chapter 4: Of Spurious Capital and Profits Often Mistaken for Interest

Chapter 5: The Law of Interest

Chapter 6: Wages and the Law of Wages

Chapter 7: Correlation and Coordination of These Laws

Chapter 8: The Statics of the Problem Explained

Segue to Book IV, Chapters 1 through 4 for Class #6

Introduction

- George's Progress and Poverty is an immense work to comprehend
- Often it helps to see where you are headed as the journey continues:

Slavery was not abolished when the 14th Amendment was ratified ... no equality to right of all to land? (p. 394)

- then, free institutions are in vain
- common schools in vain
- discoveries and inventions ***add force that presses the masses down!***

Introduction / Teaching Tools

Use of 3 Teaching Tools

- Understanding (intellectual) “gutter” talk – how you are supposed to be fooled
- Hope-Crisis Continuum – seeing through the lens of domination or justice seeking
- How to Distribute Produced Wealth – Wages from exerted labor; Interest to Capitalist; Rent for Social Adjustments

Understanding *intellectual* “gutter” talk

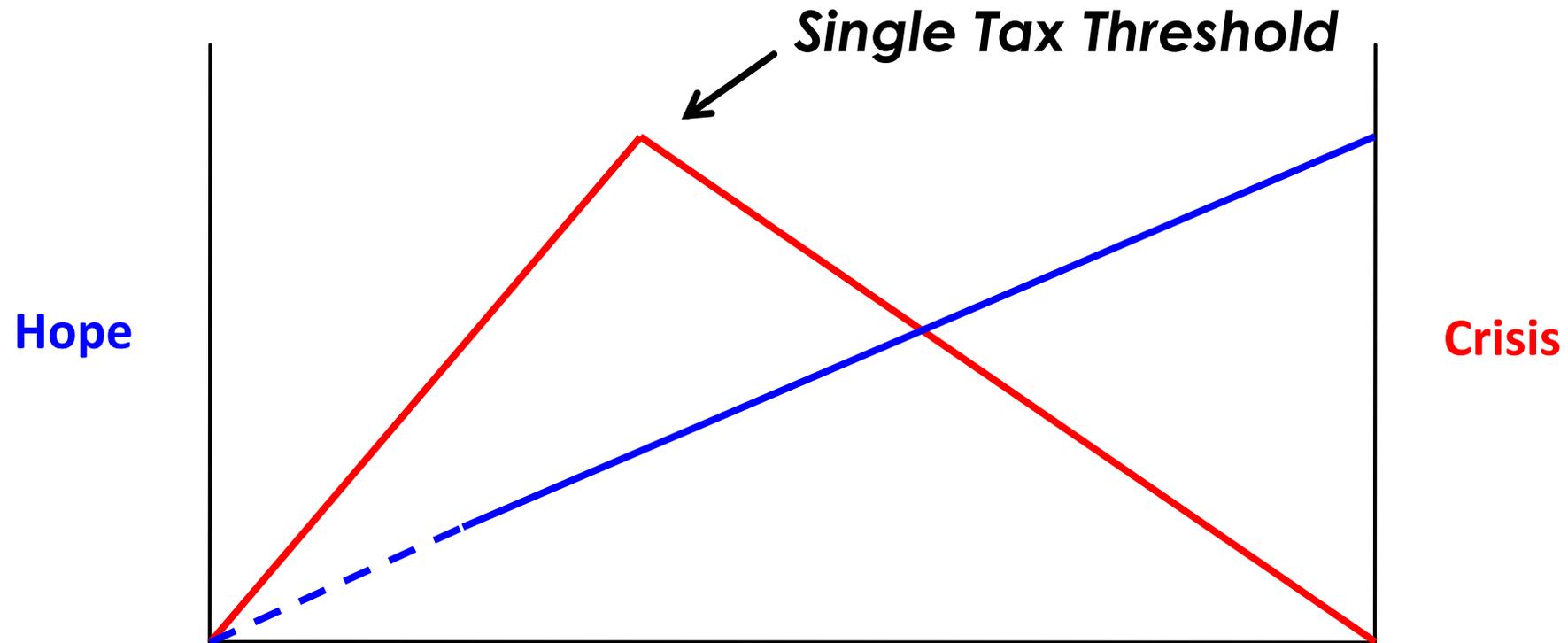
How you are supposed to be fooled

- Population increases until sustenance can't keep up
- **Wages come from CAPITAL**
- Trade policy as George's primary concern
- Tragedy of the Commons
- Supply and demand beyond the commercial shop level; necessary social adjustments will not be supplied until community sees that they are (for example)
- “Profits” conflated with interest
- **Supply of labor due to demand for labor**

Hope-Crisis Continuum

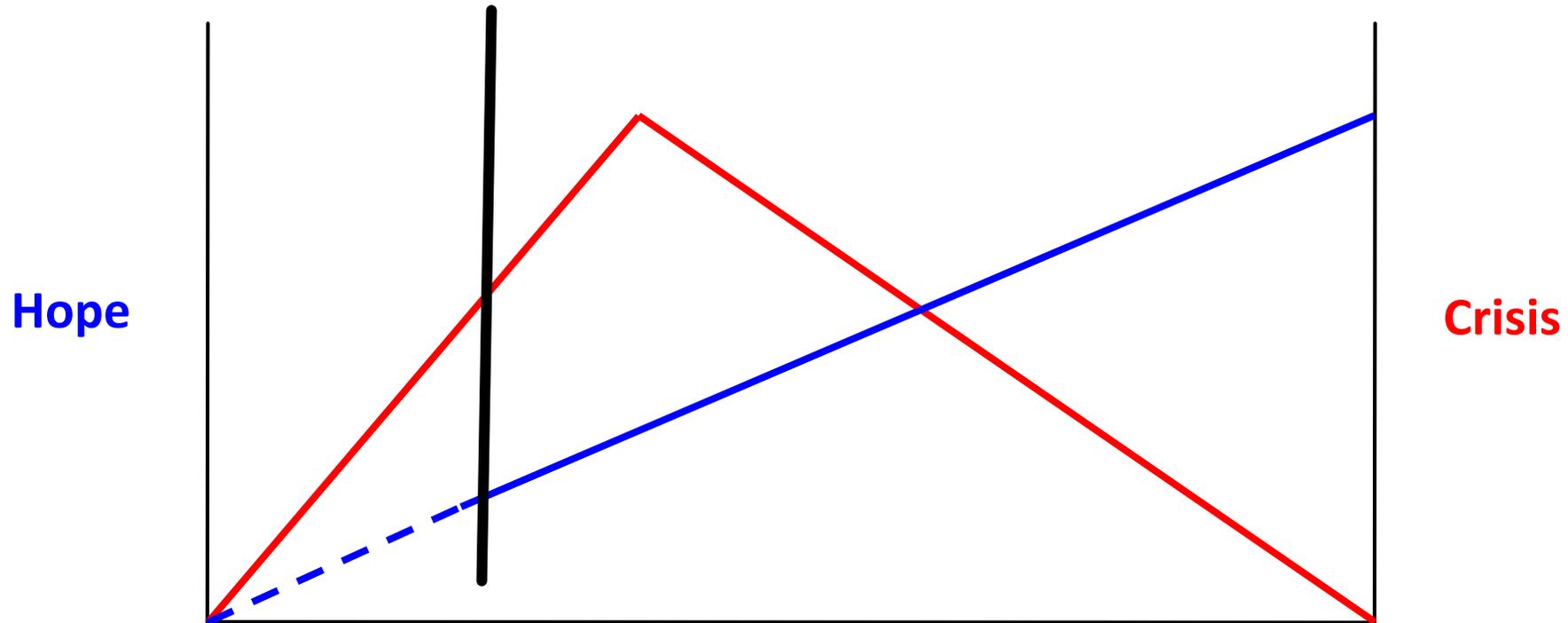
Seeing through the lens of domination or justice seeking

Hope – Crisis Continuum



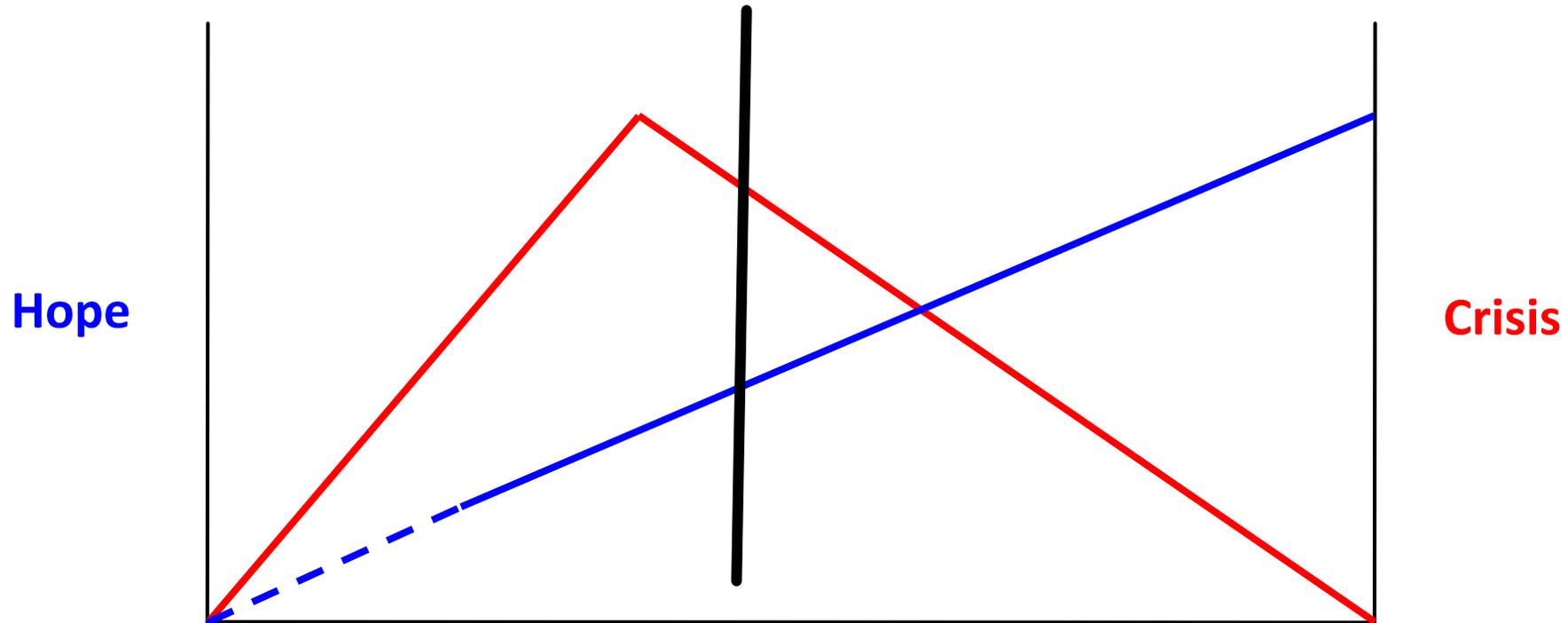
Another view of “1 step forward, 2 steps back”

Hope – Crisis Continuum



Another view of “1 step forward, 2 steps back”

Hope – Crisis Continuum

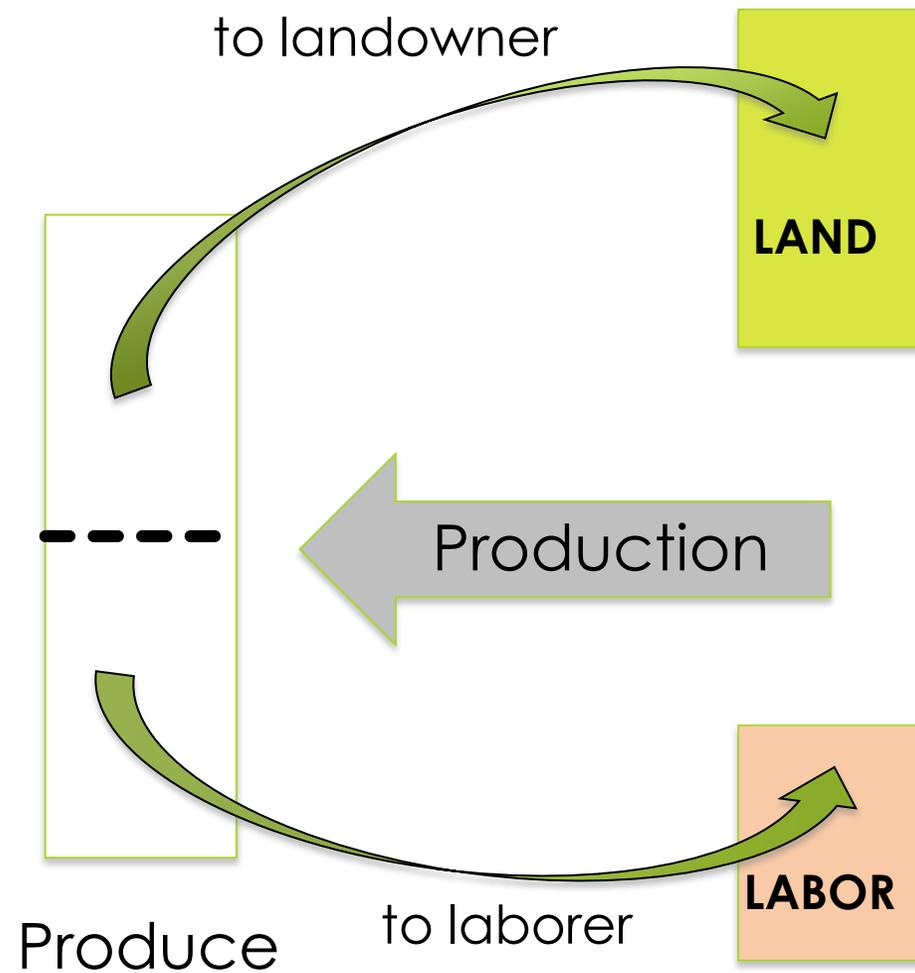


View of “1 step forward, 3 steps forward”

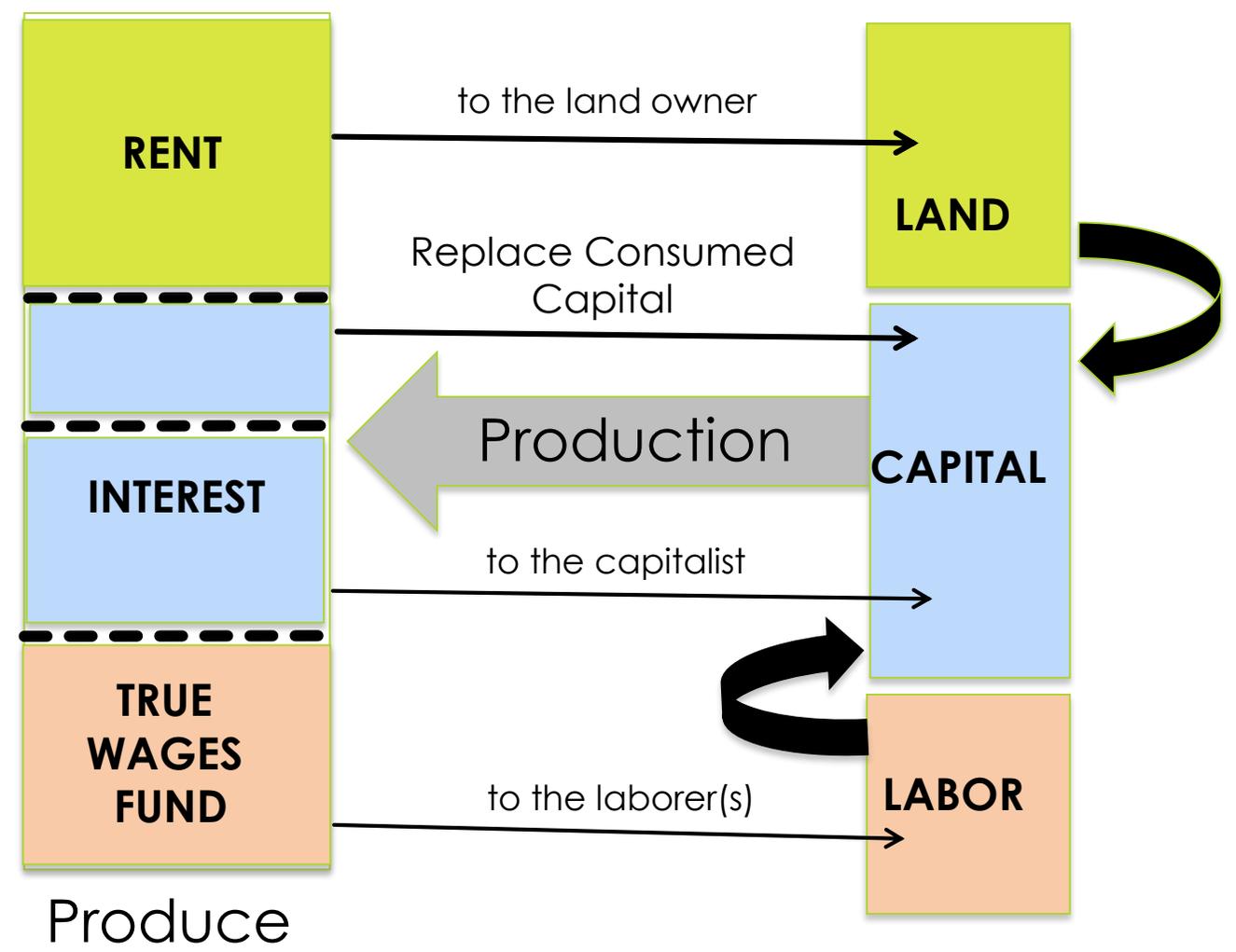
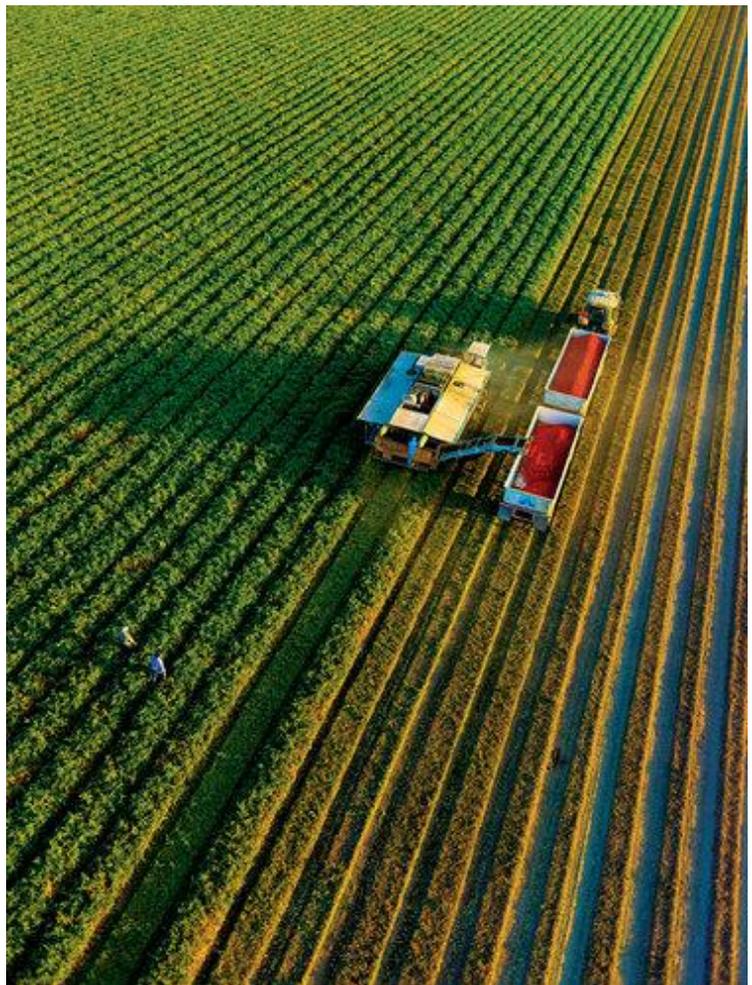
How to Distribute Produced Wealth

- Wages from Labor
- Interest to Capitalist
- Rent for Social Adjustments

AGRICULTURAL PRODUCTION w/o (or limited) CAPITAL



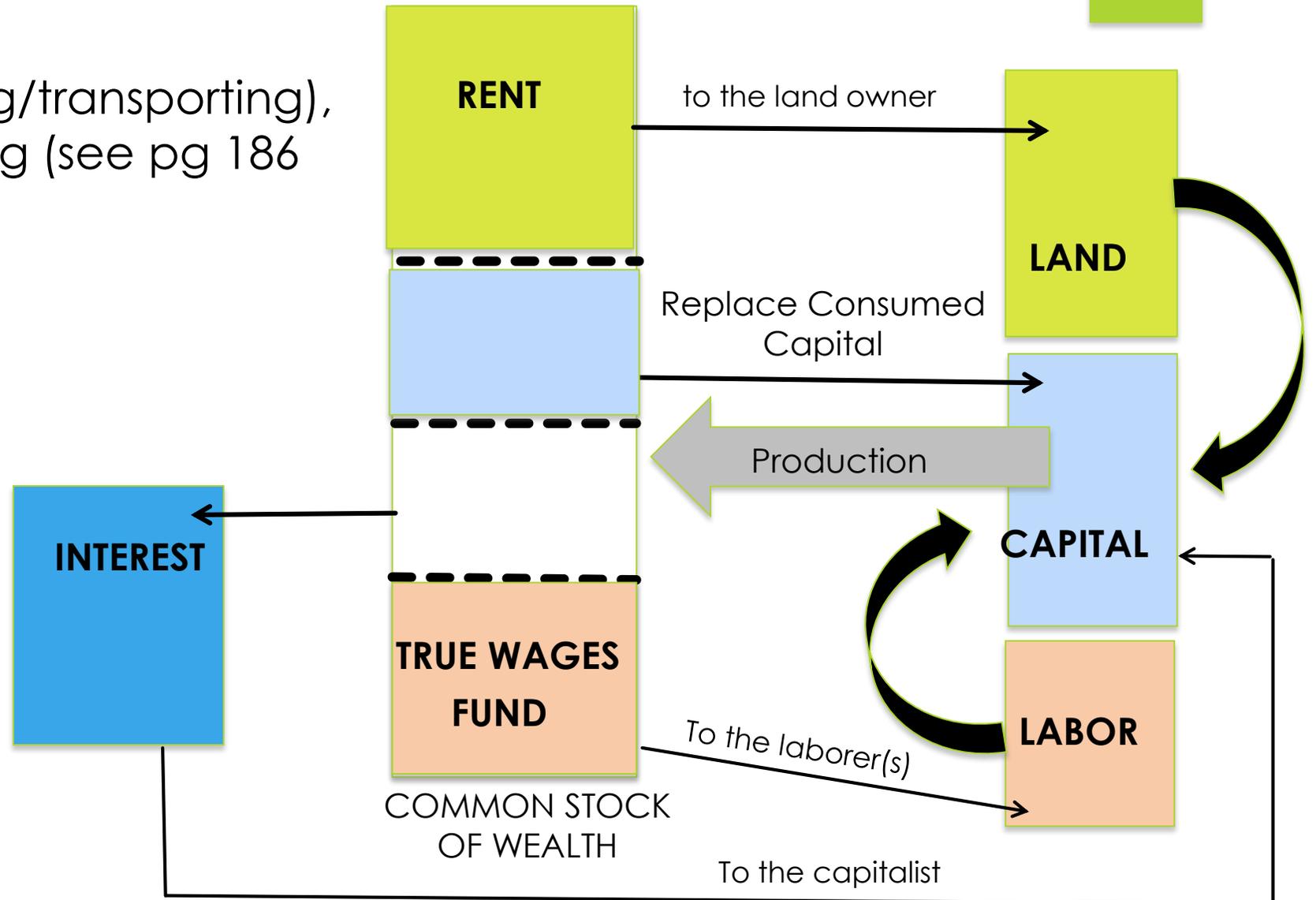
AGRICULTURAL PRODUCTION with CAPITAL



PRODUCTION* / FLOW OF WEALTH

26

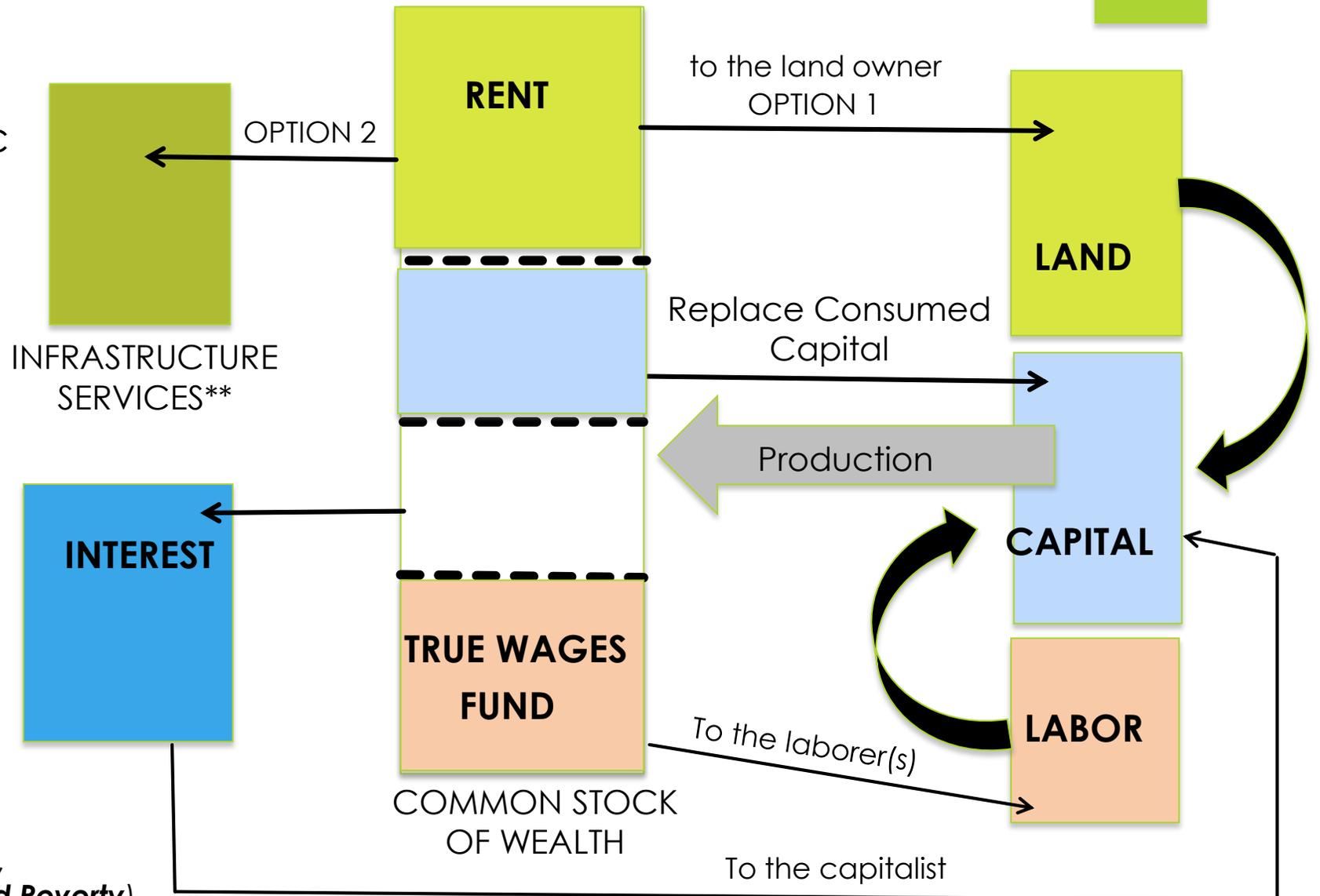
* Adapting (manufacturing/transporting), growing, and exchanging (see pg 186 of *Progress and Poverty*)



PRODUCTION* / FLOW OF WEALTH

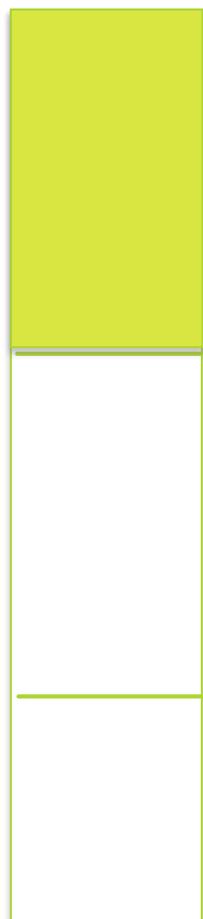
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** Includes: Gas, water, heat, electricity, public library, public school, public health, recreation, roads, bridges, telephone, highway, post office, telegraph, railroads, deepening river bed, lighthouse, public market, issue money, and reduce appropriative power of aggregate capital. From: **Social Problems**



* Adapting (manufacturing/transporting), growing, and exchanging (**Progress and Poverty**)

RENT: Excess economic returns – *to US*



RENT

INTEREST

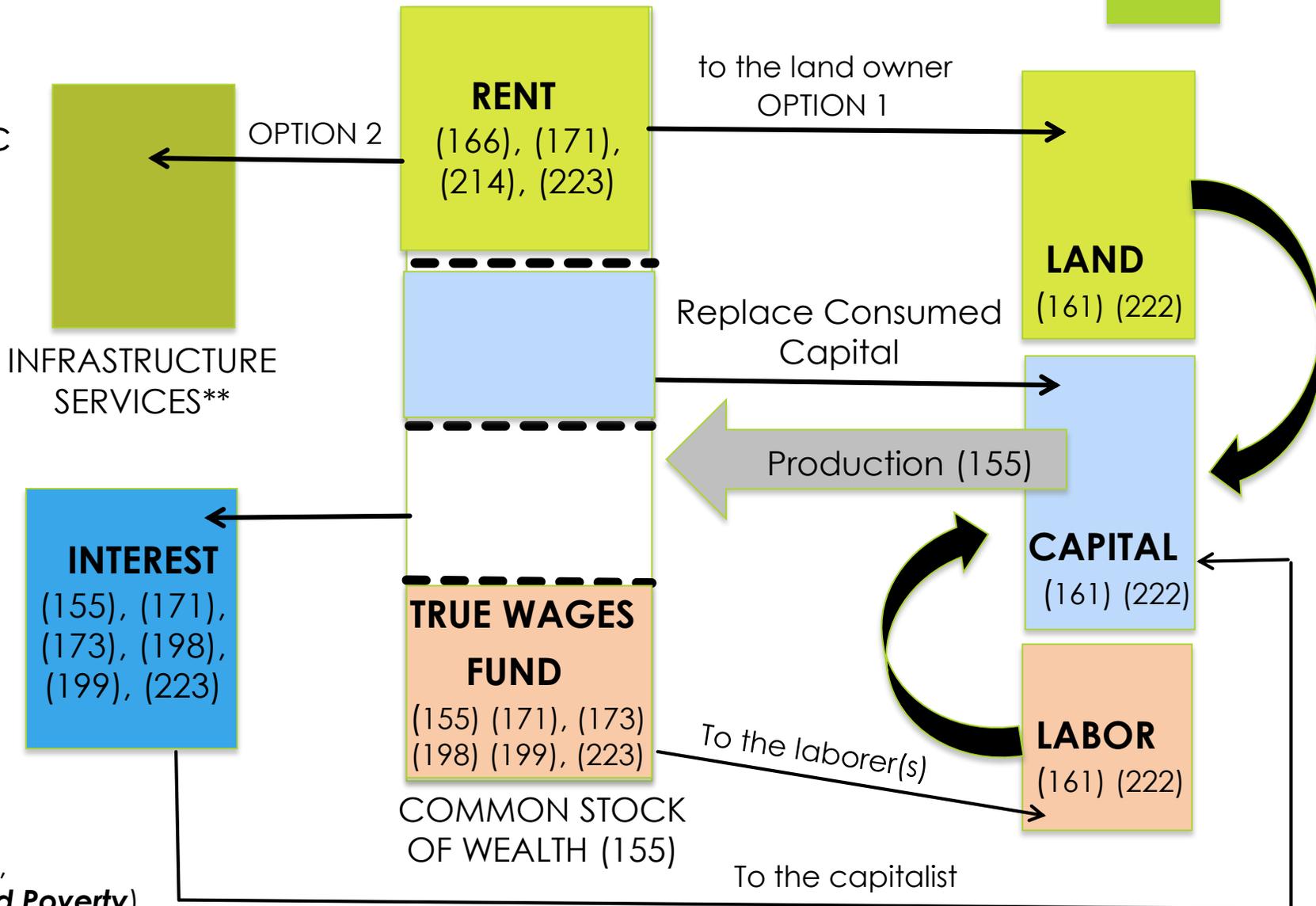
WAGES



Community – in way of services
(**common pool** collective)

PRODUCTION* / FLOW OF WEALTH

** Includes: Gas, water, heat, electricity, public library, public school, public health, recreation, roads, bridges, telephone, highway, post office, telegraph, railroads, deepening river bed, lighthouse, public market, issue money, and reduce appropriative power of aggregate capital. From: ***Social Problems*** (188) (190) (178) (179) (191)



* Adapting (manufacturing/transporting), growing, and exchanging (***Progress and Poverty***)

Book III, Chapter 4
**Of Spurious Capital and of Profits Often
Mistaken for Interest**

Book III, Chapter 4 – Spurious Capital

- George spends entire chapter on things that are not central to his thesis, just to show what he will not be talking about (p. 190)
- He does this so that you are not fooled by people “of the current thinking” who have popular but incorrect opinions
- **Government Bonds** – 3 ways to invest “evidence of indebtedness”
 1. War and materials of war (not increase of capital)
 2. Infrastructure spending (e.g., deepening of riverbed)
 3. Private RR company (if not issued in excess of capital used)

Book III, Chapter 4 – Spurious Capital

- He uses the following device to illustrate how the monopoly of the RRs saps wealth that could otherwise be used in a proper distribution of wealth:
- Imagine a rectangle representing potential production
 1. There's a line of minimum production where consumed capital is just made back to cause no loss, but no increase
 2. Above that line is a line of maximum production, above which there is waste of capital, as in the RR monopoly case

Book III, Chapter 4 – Spurious Capital

- Monopolies typically acquire large masses of capital (LMC), under common control (p. 191)
- A new and essentially different power from power of increase of capital – we call **interest**
- LMC are *more insidious than protective tariffs* (p. 192)
- What happened when the first RRs approached a town?
- Pay up or we pass you up – just like NFL forcing advantages
- LMC undercut competition, only to then drive up costs (Walmart)
- George often cites British genocide; India's Rohillas killed by a local enforcer hired by Warren Hastings (p. 193) (Opium Wars)

Book III, Chapter 4, **Spurious Capital**

Class Reading – (p.193) **Corrupt Concentrated Capital**

It is necessary only to allude to these things, not to dwell on them. Every one knows the tyranny and rapacity with which capital when concentrated in large amounts is frequently wielded to corrupt, to rob, and to destroy. What I wish to call the reader's attention to is that profits thus derived are not to be confounded with the legitimate returns of capital as an agent of production.

*see <https://www.libraryireland.com/Brehon-Laws/Ceiles-6.php>

Book III, Chapter 4, **Spurious Capital**

Class Reading – (p.193) **Corrupt Concentrated Capital**

They are for the most part to be attributed to a maladjustment of forces in the legislative department of government, and to a blind adherence to ancient barbarisms and the superstitious reverence for the ***technicalities of a narrow profession in the administration of law***; while the general cause which in advancing communities tends, with the concentration of wealth, to the concentration of power, is the solution of the great problem we are seeking for, but have not yet found.

*see <https://www.libraryireland.com/Brehon-Laws/Ceiles-6.php>

Book III, Chapter 4 – Spurious Capital

- Concentrated capital – wealth is not from power of capital
- LMC often act upon bad social adjustments for success (p.194)
- How about “profits” from elements of risk?
 1. taking chances
 2. Gambling, as in stock dealing
 3. Con men
 4. What one gains someone else must lose
 5. These are not increases from power of capital

Book III, Chapter 4 – Spurious Capital

- Who are these that so many respect?
- Note who is not among this list!
- Yes, wealthy, but not by interest
 1. Dukes of Westminster
 2. Marquises of Bute
 3. Rothchilds (was George anti-semitic, or just anti-monopoly?)
 4. Astors
 5. Stewarts
 6. Vanderbilts

Book III, Chapter 4 – Spurious Capital

- Who are these that so many respect?
 - Note who is not among this list!
 - Yes, wealthy, but not by interest
7. Stanford
 8. Flood

Book III, Chapter 5
The Law of Interest

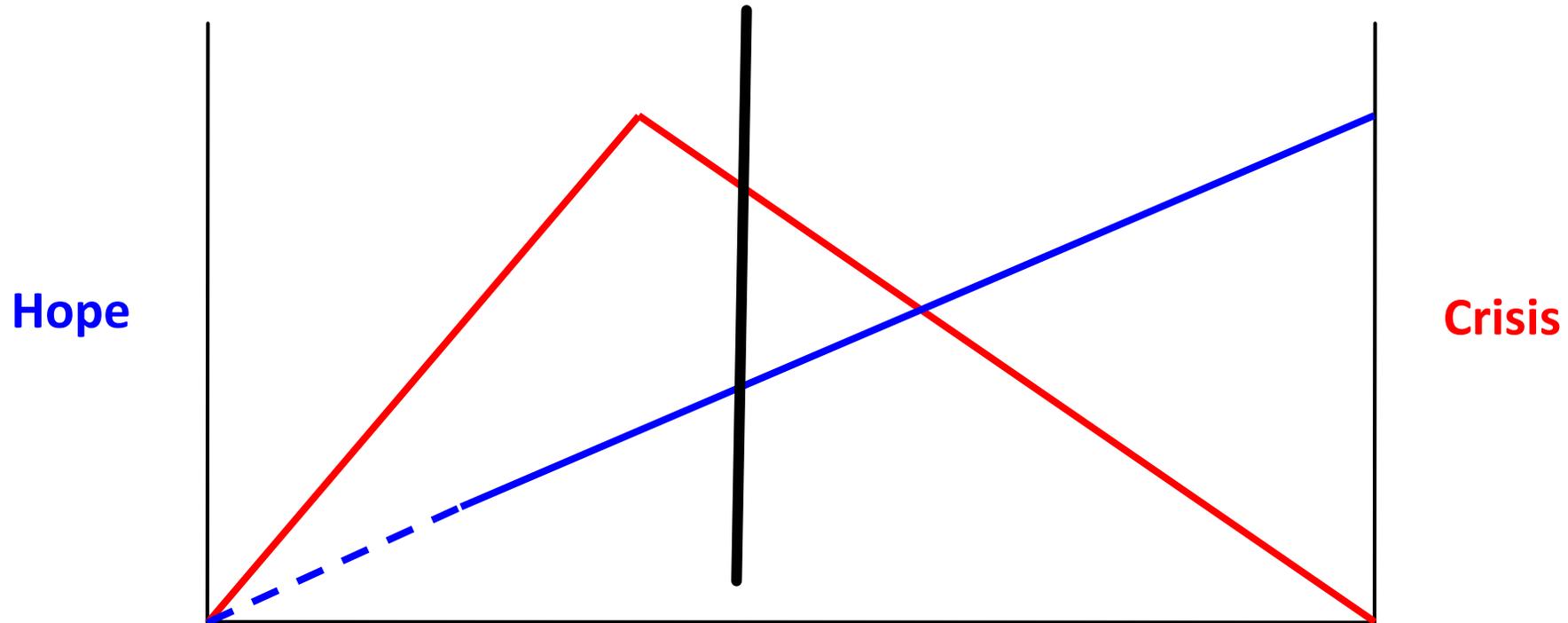
Book III, Chapter 5 – Law of Interest

- Remember – Labor employs capital, not other way around! (p.195)
- Capital is not fixed; constant flow of wealth to capital and capital to wealth
- Maximum given to capital is the interest it will bring
- Minimum replaces consumed capital

Book III, Chapter 5 – Law of Interest

- Native American example of bow and arrow capital (P. 195)
 1. Can weapon maker of tribe claim 6 or every 7 buffalo killed with a new weapon?
 2. No; it is not increased efficiency given to labor that fixes maximum production
 3. It is the average power of increase which belongs to capital generally – type of phase change as in the HCC
 4. Advance in the arts has created a common property and a power of labor – THIS IS NOT EFFICIENCY!

Hope – Crisis Continuum



View of “1 step forward, 3 steps forward”

Book III, Chapter 5 – Law of Interest

- Reproductive powers of nature (p. 197)
 1. Increase of interest from beneficial forces in nature that allow an abundance of commodities to exist
 2. However, VALUES play a moderating influence
 3. E.g., rabbits multiply faster than horses, but prices decline on quantity
 4. Industrial communities are not limited by political or geographical division, but international exchange
 5. Yet, a balance between agriculture and manufacturing yields a normal rate of interest, a ratio

Book III, Chapter 5 – Law of Interest

- Labor and capital are different forms of same thing – HUMAN EXERTION! (p. 198)
- Labor is stored up in matter, as heat of sun is stored up in coal
- Interest is return capital can secure, less insurance and wages of superintendence (p. 199)

Book III, Chapter 5 – Law of Interest

- Law of interest is a corollary to law of rent (p. 201)
- What can be earned in production of flour depends mostly on price of wheat, as milling costs change little
- Price of wheat – based on best land open to production without payment of rent (an issue of seasons, war, etc.)
- As rent rises, interest will fall as wages fall, or will be determined by the margin of cultivation (p. 203)

Book III, Chapter 5, **Law of Interest**

Class Reading – (p.201) **Corollary to Law of Rent**

Or, as, leaving the connecting link, the price of wheat, to inference, we say that the price of flour depends upon the character of the seasons, wars, etc., so may we put the law of interest in a form which directly connects it with the law of rent, by saying that the general rate of interest will be determined by the return to capital upon the poorest land to which capital is freely applied—that is to say, upon the best land open to it without the payment of rent. Thus we bring the law of interest into a form which shows it to be a corollary of the law of rent.

*see <https://www.libraryireland.com/Brehon-Laws/Ceiles-6.php>

Book III, Chapter 5, **Law of Interest**

Class Reading – (p.201) **Corollary to Law of Rent**

We may prove this conclusion in another way: For that interest must decrease as rent increases, we can plainly see if we eliminate wages. To do this, we must, to be sure, imagine a universe organized on totally different principles. Nevertheless, we may imagine what Carlyle would call a fool's paradise, where the production of wealth went on without the aid of labor, and solely by the reproductive force of capital—where sheep bore ready-made clothing on their backs, cows presented butter and cheese, and oxen, when they got to the proper point of fatness, carved themselves into beefsteaks and roasting ribs; where houses grew from the seed, and a jackknife thrown upon the ground would take root and in due time bear a crop of assorted cutlery.

*see <https://www.libraryireland.com/Brehon-Laws/Ceiles-6.php>

Book III, Chapter 5, **Law of Interest**

Class Reading – (p.201) **Corollary to Law of Rent**

Imagine certain capitalists transported, with their capital in appropriate forms, to such a place. Manifestly, they would get, as the return for their capital, the whole amount of wealth it produced only so long as none of its produce was demanded as rent. When rent arose, it would come out of the produce of capital, and as it increased, the return to the owners of capital must necessarily diminish.

*see <https://www.libraryireland.com/Brehon-Laws/Ceiles-6.php>

Book III, Chapter 5, **Law of Interest**

Class Reading – (p.202) **Corollary to Law of Rent**

If we imagine the place where capital possessed this power of producing wealth without the aid of labor to be of limited extent, say an island, we shall see that as soon as capital had increased to the limit of the island to support it, the return to capital must fall to a trifle above its minimum of mere replacement, and the land owners would receive nearly the whole produce as rent, for the only alternative capitalists would have would be to throw their capital into the sea.

*see <https://www.libraryireland.com/Brehon-Laws/Ceiles-6.php>

Book III, Chapter 5 – Law of Interest

- Law of interest – a relation between wages and interest is determined by the average power of increase which attaches to capital from its use in reproductive modes. (p. 203)
- As rent rises, interest will fall as wages fall.
- Or, will be determined by the margin of cultivation.
- Capital is a form of labor
- The primary division of wealth in distribution is DUAL, not tripartite. (p. 203)

Book III, Chapter 6
Wages and the Law of Wages

Book III, Chapter 6 – Wages, Law of Wages

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- Yes, we have the law of wages by inference from what we've discussed. (p. 204)
- Now let's start from an independent starting point.
- There is no common rate of wages (a quantity, or proportion), as there is a common rate of interest (a ratio)
- Wages vary among occupations.
- There is a general relation between all wages; rise/fall in obedience to a common law.

Book III, Chapter 6 – Wages, Law of Wages

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- Fundamental Principle of Human Action – MSTGTDWTLE
 1. Men seek to gratify their desires with the least exertion
 2. This brings to an equality, through competition it induces a reward gained by equal exertion under similar circumstances.
 3. For self-employed and work for others - through prices
 4. Wages are fixed by the value/produce of such labor to the laborers themselves. (p. 205)
 5. MSTGTDWTLE – fix wages at produce of such labor at the highest natural productiveness open to it (is there a 21st century phenomenon working here? – infrastructure services?)

Book III, Chapter 6 – Wages, Law of Wages

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- Wages are based on what labor receives at the lowest point of cultivation. (p. 207)
- Wages depend upon the margin of cultivation.
- Adam Smith failed to apprehend the true laws (p. 215 – distribution of wealth) because he turned away from primitive forms of society to look for first principles amid complex social manifestations, and accepting Malthus' theory of population and accepted theories of the function of capital. (p. 208)
- It is meaningless to say that the general rate of wages is determined by Supply and Demand (S/D).
- It only is at a particular time; they are relative terms.

Book III, Chapter 6 – Wages, Law of Wages

55

- This fallacy about S/D is believed by those who say wages are paid by capital (something distinct from labor)
- However, rarity of qualities required causes wages to rise, similar to the ability of a worker to work fast.
- Fundamental occupations procure wealth directly from nature and what they can produce at the lowest point of natural productiveness. (p. 212)
- Wages depend on the margin of cultivation, or highest point of natural productiveness without the payment of rent.

Book III, Chapter 6, **Law of Wages**

Class Reading – (p. 212 - 213) **Margin of Cultivation**

So obvious is this law that it is often apprehended without being recognized. It is frequently said of such countries as California and Nevada that cheap labor would enormously aid their development, as it would enable the working of the poorer but most extensive deposits of ore. A relation between low wages and a low point of production is perceived by those who talk in this way, but they invert cause and effect. It is not low wages which will cause the working of low-grade ore, but the extension of production to the lower point which will diminish wages. If wages could be arbitrarily forced down, as has sometimes been attempted by statute, the poorer mines would not be worked so long as richer mines could be worked.

*see <https://www.libraryireland.com/Brehon-Laws/Ceiles-6.php>

Book III, Chapter 6, **Law of Wages**

Class Reading – (p. 212 - 213) **Margin of Cultivation**

But if the margin of production were arbitrarily forced down, as it might be, were the superior natural opportunities in the ownership of those who chose rather to wait for future increase of value than to permit them to be used now, wages would necessarily fall.

The demonstration is complete. The law of wages we have thus obtained is that which we previously obtained as the corollary of the law of rent, and it completely harmonizes with the law of interest. It is, that:

*see <https://www.libraryireland.com/Brehon-Laws/Ceiles-6.php>

Book III, Chapter 6, **Law of Wages**

Class Reading – (p. 212 - 213) **Margin of Cultivation**

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.

This law of wages accords with and explains universal facts that without its apprehension seem unrelated and contradictory. It shows that:

Where land is free and labor is unassisted by capital, the whole produce will go to labor as wages.

*see <https://www.libraryireland.com/Brehon-Laws/Ceiles-6.php>

Book III, Chapter 6, **Law of Wages**

Class Reading – (p. 212 - 213) **Margin of Cultivation**

Where land is free and labor is assisted by capital, wages will consist of the whole produce, less that part necessary to induce the storing up of labor as capital.

Where land is subject to ownership and rent arises, wages will be fixed by what labor could secure from the highest natural opportunities open to it without the payment of rent.

Where natural opportunities are all monopolized, wages may be forced by the competition among laborers to the minimum at which laborers will consent to reproduce.

*see <https://www.libraryireland.com/Brehon-Laws/Ceiles-6.php>

Book III, Chapter 6, **Law of Wages**

Class Reading – (p. 214 - 215) **Land Not Monopolized**

In its simpler manifestations, this law of wages is recognized by people who do not trouble themselves about political economy, just as the fact that a heavy body would fall to the earth was long recognized by those who never thought of the law of gravitation. It does not require a philosopher to see that if in any country natural opportunities were thrown open which would enable laborers to make for themselves wages higher than the lowest now paid, the general rate of wages would rise; while the most ignorant and stupid of the placer miners of early California knew that as the placers gave out or were monopolized, wages must fall. It requires no fine-spun theory to explain why wages are so high relative to production in new countries where land is yet unmonopolized.

*see <https://www.libraryireland.com/Brehon-Laws/Ceiles-6.php>

Book III, Chapter 6, **Law of Wages**

Class Reading – (p. 214 - 215) **Land Not Monopolized**

The cause is on the surface. One man will not work for another for less than his labor will really yield, when he can go upon the next quarter section and take up a farm for himself. It is only as land becomes monopolized and these natural opportunities are shut off from labor, that laborers are obliged to compete with each other for employment, and it becomes possible for the farmer to hire hands to do his work while he maintains himself on the difference between what their labor produces and what he pays them for it.

*see <https://www.libraryireland.com/Brehon-Laws/Ceiles-6.php>

Book III, Chapter 6, **Law of Wages**

Class Reading – (p. 215 - 216) **Dog Would Bite Them**

This chapter contains numerous expressions which, like the opening sentence in the chapter on The Wages of Labor, show that Adam Smith failed to appreciate the true laws of the distribution of wealth only because he turned away from the more primitive forms of society to look for first principles amid complex social manifestations, where he was blinded by a preaccepted theory of the functions of capital, and, as it seems to me, by a vague acceptance of the doctrine which, two years after his death, was formulated by Malthus. And it is impossible to read the works of the economists who since the time of Smith have endeavored to build up and elucidate the science of political economy without seeing how, over and over again, they stumble over the law of wages without once recognizing it.

*see <https://www.libraryireland.com/Brehon-Laws/Ceiles-6.php>

Book III, Chapter 6, **Law of Wages**

Class Reading – (p. 215 - 216) **Dog Would Bite Them**

Yet, “if it were a dog it would bite them!” Indeed, it is difficult to resist the impression that some of them really saw this law of wages, but, fearful of the practical conclusions to which it would lead, preferred to ignore and cover it up, rather than use it as the key to problems which without it are so perplexing. A great truth to an age which has rejected and trampled on it, is not a word of peace, but a sword!

*see <https://www.libraryireland.com/Brehon-Laws/Ceiles-6.php>

Book III, Chapter 7

Correlation and Coordination of These Laws

Book III, Chapter 7 – Correlation/Coordination

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- Competition prevents the returns to LABOR and CAPITAL being anywhere greater than upon the poorest LAND in use. (p. 219)
- Political economy of 1879 (and today!) view of laws of distribution of wealth have/do: (p. 220)
 1. No common center
 2. No mutual relation
 3. Not the correlating divisions of a whole
 4. Measure different qualities

Book III, Chapter 7 – Correlation/Coordination

- Georgist laws of distribution (on the other hand)
 1. Spring from one point
 2. Support and supplement each other
 3. Form correlating divisions of a complete whole

Book III, Chapter 8

The Statics of the Problem Thus Explained

- Resemblance between **science of political economy (1879)** and science of astronomy: (p. 221)
 1. Elaborate (apparent) system set to explain sense certainty: Earth-based universe
 2. Cannot explain all phenomena
 3. Copernican theory gave **simplicity and harmony** to the actual system: Sun-based solar system

Book III, Chapter 8 – Statics of Problem Explained

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- Failure of wages to increase with increase of **productive power** is due to **increased rent**. (p. 222)
- Not the total produce but the **NET PRODUCE** after rent is removed that determines what can be divided as **WAGES and INTEREST**. (p. 223)

Book III, Chapter 8 – Statics of Problem Explained

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- Wages and interest is everywhere fixed:
 - 1. Not by productiveness of labor
 - 2. But by value of land
 - 3. Value of land **low** – wages and interest is **high**
 - 4. Value of land **high** – wages and interest is **low**
 - 5. Increase of **LAND** value ALWAYS **at expense of** value of **LABOR**
 - 6. Increase of productive power does **not** increase wages – it **raises rent**.

Segue to Class #6 – Book IV

Chapter 1 – Dynamics

- Do steamships move because their wheels turn around? (p. 227)

Chapter 2 – Population and Distribution of Wealth

- Productiveness of a higher kind – subdividing branches of production (p. 239)

Chapter 3 – Improvements in Arts and Wealth Distribution

- Yes, labor saving devices increase the power of labor, but more importantly they extend the margin of cultivation, and could lead to increase of rent. (p. 245)

Chapter 4 – Expectations of Material Progress

- Expectations lead to speculation of increasing land values, thus further extending the margin of cultivation, as in leap-frogging. (p.

END