

Henry George's Axioms in *Progress and Poverty* (1879)

The full text of *Progress and Poverty* can be found here:
<http://schalkenbach.org/library/henry-george/p+p/ppcont.html>

Henry George states two basic axioms:

- 1) People seek to satisfy their desires with the least exertion.
- 2) Human desires are unlimited.

Here are George's first mentions of these axioms in context, highlighted in bold:

Introductory

The Problem

[01] The present century has been marked by a prodigious increase in wealth-producing power. The utilization of steam and electricity, the introduction of improved processes and laborsaving machinery, the greater subdivision and grander scale of production, the wonderful facilitation of exchanges, have multiplied enormously the effectiveness of labor.

[02] At the beginning of this marvelous era it was natural to expect, and it was expected, that laborsaving inventions would lighten the toil and improve the condition of the laborer; that the enormous increase in the power of producing wealth would make real poverty a thing of the past.

...

[11] This fact -- the great fact that poverty and all its concomitants show themselves in communities just as they develop into the conditions toward which material progress tends -- proves that the social difficulties existing wherever a certain stage of progress has been reached, do not arise from local circumstances, but are, in some way or another, engendered by progress itself.

...

[15] This association of poverty with progress is the great enigma of our times. It is the central fact from which spring industrial, social, and political difficulties that perplex the world, and with which statesmanship and philanthropy and education grapple in vain. . . . It is the riddle which the Sphinx of Fate puts to our civilization and which not to answer is to be destroyed. . . .

[16] All-important as this question is, pressing itself from every quarter painfully upon attention, it has not yet received a solution which accounts for all the facts and points to any clear and simple remedy.

...

[18] It must be within the province of political economy to give such an answer. For political economy . . . is the explanation of a certain set of facts. It is the science which . . . seeks to trace mutual relations and to identify cause and effect, just as the physical sciences seek to do in other sets of phenomena. It lays its foundations upon firm ground. The premises from which it makes its deductions are truths which have the highest sanction; axioms which we all recognize; upon which we safely base the reasoning and actions of everyday life, and which may be reduced to the metaphysical expression of the physical law that motion seeks the line of least resistance -- viz., that **men seek to gratify their desires with the least exertion.** . . .

Book II: Population and Subsistence

Chapter 3: Inferences From Analogy

[01] If we turn from an examination of the facts brought forward in illustration of the Malthusian theory to consider the analogies by which it is supported, we shall find the same inconclusiveness.

[02] The strength of the reproductive force in the animal and vegetable kingdoms -- . . . [that] each species constantly tends to press, and when not limited by the number of its enemies, evidently does press, against the limits of subsistence -- is constantly cited, from Malthus down to the textbooks . . . as showing that population likewise tends to press against subsistence, and, when unrestrained by other means, its natural increase must necessarily result in such low wages and want, or, if that will not suffice, . . . in such actual starvation, as will keep it within the limits of subsistence.

[03] But is this analogy valid?

. . .

[09] . . . That vegetable and animal life tend to press against the limits of space does not prove the same tendency in human life.

[10] Granted that man is only a more highly developed animal . . . Yet there is still **this difference between man and all other animals -- he is the only animal whose desires increase as they are fed; the only animal that is never satisfied.** The wants of every other living thing are uniform and fixed. . . . The only use they can make of additional supplies or additional opportunities is to multiply.

[11] But not so with man. No sooner are his animal wants satisfied than new wants arise. Food he wants first, as does the beast; shelter next, as does the beast; and these given, his reproductive instincts assert their sway, as do those of the beast. But here man and beast part company. The beast never goes further; the man has but set his feet on the first step of an infinite progression . . .

[12] The demand for quantity once satisfied, he seeks quality. The very desires that he has in common with the beast become extended, refined, exalted. . . . Passing into higher forms of desire . . . The eyes of the mind are opened, and he longs to know. . . .

[13] . . . Beneath things, he seeks the law; he would know how the globe was forged and the stars were hung, and trace to their origins the springs of life. And, then, as the man develops his nobler nature, there arises the desire higher yet -- the passion of passions, the hope of hopes -- the desire that he . . . may somehow aid in making life better and brighter, in destroying want and sin, sorrow and shame. . . .

[14] Is not the gulf too wide for the analogy to span? Give more food, open fuller conditions of life, and the vegetable or animal can but multiply; the man will develop. . . .

[15] Whichever way it be turned, the reasoning by which this theory . . . is supported shows an unwarranted assumption . . . Facts do not warrant it, analogy does not countenance it.

. . .

[17] If the real law of population is thus indicated . . . then the tendency to increase, instead of being always uniform, is strong where a greater population would give increased comfort, and where the perpetuity of the race is threatened by the mortality induced by adverse conditions; but weakens just as the higher development of the Individual becomes possible and the perpetuity of the race is assured. In other words, . . . any danger that human beings may be brought into a world where they cannot be provided for arises not from the ordinances of nature, but from social maladjustments that in the midst of wealth condemn men to want. . . . the Malthusian theory is not proved by the reasoning by which it is supported . . . In the next chapter I propose to . . . show that it is disproved by facts.

Henry George's Definitions in *Progress and Poverty*

references: e.g. III.2 would refer to P&P Book III, Chapter 2
p numbers refer to edition by Schalkenbach Foundation

wealth	p 41, I.2; p 49 I.2 (a) material (b) made by labor (c) satisfy human desire (d) exchange value	material goods
production	p 48, I.2	making & bringing wealth to user
land	p 38, I.2	material universe outside humans & products
labor	p 39, I.2	human exertion
capital	p 45, I.2 -> p 48, I.2	wealth [material goods] in course of exchange
produce	p 155, III.1	wealth produced beyond capital replacement
distribution	p 162, III.1; p 171, III.2	Produce = Rent + Wages + Interest
rent	p. 165-6, III.2	return to land
wages	p 32, I.2	return to labor
interest	p 173, III.3	return to capital

Notes:

Consider Adam Smith's title: *The Wealth of Nations*. George's definition of "**wealth**" follows classical economists such as Adam Smith in identifying as wealth things which add to society's aggregate storehouse of material goods, not items which are claims of one party over another (e.g. money, debts), and not items which are part of society's endowment (e.g. land and people). See p 39-41 P&P I.2:

"As commonly used the word "wealth" is applied to anything having an exchange value. But when used as a term of political economy . . ."

Land, Labor, and Capital are the three factors of production identified by classical economics (Smith, Malthus, Say, Ricardo, James Mill, John Stuart Mill, Marx, George).

Nothing that is land can be capital in George's usage—for him a cogent economic analysis requires that Land, Labor, and Capital be mutually exclusive terms. Likewise for Rent, Wages, and Interest.

On wealth not including services see also p 42, I.2:

"Wealth is not the sole object of labor, for labor is also expended in ministering directly to desire; but it is the object and result of what we call productive labor—that is, labor which gives value to material things."

Not just George but other classical economists spoke of "productive labor" and "unproductive labor."

Since George's time services have grown in their share of the overall economy. Certainly they require labor and can add to well-being.

To read Henry George with full understanding, it is essential to be aware of what he means by his technical terms—especially when that meaning differs from everyday usage, and/or from typical usage by other economists and writers.

<u>HG term</u>	<u>does include e.g.</u>	<u>does not include e.g.</u>
wealth	produced goods	services land slaves financial assets (money, bonds, stocks, . . .)
production	transport of goods sale of goods	services (whereas GDP includes services)
land	rivers, lakes, oceans, air natural resources natural forces electromagnetic spectrum airline routes	buildings / improvements to land
labor	salaried work entrepreneurial work self-employment	
capital	raw materials tools / machines / buildings— used in course of exchange intermediate goods merchandise / inventories	operating expenses money invested land, natural resources expertise patents equity (on a balance sheet)
rent	imputed rent (when user is also owner) price of land potential rent (on unused land)	portion paid to landlord for the building payment for use of a tool or machine
wages *	salaries return to entrepreneurial work return to self-employment	
interest *	return to capital goods **	"wages of superintendence" compensation for risk ≠ the usage in "loan principal and interest"

* George argues that both wages and interest [return to capital goods] presently tend to a bare minimum due to the legal power inherent in private ownership of land.

** This author submits that beyond its maintenance, there is no independent return to capital—even if full rent is collected by society and taxes eliminated. He agrees that:

"In fact, it receives nothing but its supply price."

—Brian Hodgkinson, *A New Model of the Economy* (2008), chapter 11

Henry George built upon the framework laid out by earlier classical economists.
Ricardo's Preface shows this very clearly:

The Project Gutenberg EBook of On The Principles of Political Economy, and Taxation, by David Ricardo

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ON THE PRINCIPLES OF POLITICAL ECONOMY AND TAXATION.

BY DAVID RICARDO, Esq.

LONDON: JOHN MURRAY, ALBEMARLE-STREET 1817.

J. M^cCREERY. Printer,

Black Horse Court, London.

PREFACE.

The produce of the earth--all that is derived from its surface by the united application of labour, machinery, and capital, is divided among three classes of the community; namely, the proprietor of the land, the owner of the stock or capital necessary for its cultivation, and the labourers by whose industry it is cultivated.

But in different stages of society, the proportions of the whole produce of the earth which will be allotted to each of these classes, under the names of rent, profit, and wages, will be essentially different; depending mainly on the actual fertility of the soil, on the accumulation of capital and population, and on the skill, ingenuity, and instruments employed in agriculture.

To determine the laws which regulate this distribution, is the principal problem in Political Economy: much as the science has been improved by the writings of Turgot, Stuart, Smith, Say, Sismondi, and others, they afford very little satisfactory information respecting the natural course of rent, profit, and wages.

In 1815, Mr. Malthus in his "Inquiry into the Nature and Progress of Rent," and a Fellow of University College, Oxford, in his "Essay on the Application of Capital to Land," presented to the world, nearly at the same moment, the true doctrine of rent; without a knowledge of which it is impossible to understand the effect of the progress of wealth on profits and wages, or to trace satisfactorily the influence of taxation on different classes of the community, particularly when the commodities taxed are the productions immediately derived from the surface of the earth. Adam Smith, and the other able writers to whom I have alluded, not having viewed correctly the principles of rent, have, it appears to me, overlooked many important truths, which can only be discovered after the subject of rent is thoroughly understood.

David Ricardo is well known for enunciating the law of rent.

<http://econlib.org/library/Ricardo/ricP1a.html>

On the Principles of Political Economy and Taxation

(pub. 1817)

Ricardo, David

(1772-1823)

Chapter 2 On Rent

2.2

Rent is that portion of the produce of the earth, which is paid to the landlord for the use of the original and indestructible powers of the soil. It is often, however, confounded with the interest and profit of capital, and, in popular language, the term is applied to whatever is annually paid by a farmer to his landlord. . . . Adam Smith sometimes speaks of rent, in the strict sense to which I am desirous of confining it, but more often in the popular sense, in which the term is usually employed. . . . In the future pages of this work, then, whenever I speak of the rent of land, I wish to be understood as speaking of that compensation, which is paid to the owner of land for the use of its original and indestructible powers.

2.3

On the first settling of a country, in which there is an abundance of rich and fertile land, a very small proportion of which is required to be cultivated for the support of the actual population, or indeed can be cultivated with the capital which the population can command, there will be no rent . . .

2.4

On the common principles of supply and demand, no rent could be paid for such land, for the reason stated why nothing is given for the use of air and water, or for any other of the gifts of nature which exist in boundless quantity. . . . pressure of the atmosphere . . . elasticity of steam ... no charge is made for the use of these natural aids, because they are inexhaustible, and at every man's disposal. . . . If all land had the same properties, if it were unlimited in quantity, and uniform in quality, no charge could be made for its use, unless where it possessed peculiar advantages of situation. . . . When in the progress of society, land of the second degree of fertility is taken into cultivation, rent immediately commences on that of the first quality, and the amount of that rent will depend on the difference in the quality of these two portions of land.

2.5

When land of the third quality is taken into cultivation, rent immediately commences on the

PRODUCTION

Land + Labor + Capital



Net Produce
(Wealth)

- Book I Labor creates its own wage.
(Wages are not limited by a "wage fund.")
- Book II Productivity (per capita output) increases
as population density grows.
(greater division of labor, processes and capital refined)
- Meanwhile, population growth slows as
economies advance.

We do not find an explanation of "the great enigma of our times" in fallacious theories (wage fund theory, Malthusian theory) about limits to production.

DISTRIBUTION

Net Produce



Rent + (Wages + Interest)

these 3 are mutually exclusive

Book III The Law of Rent

Rent is the difference* between the productive potential of a site as compared with a marginal site. All the advantages, less the disadvantages.

corollary: The Law of (Wages + Interest)

Because R, W, I are mutually exclusive, and together distribute 100% of the produce,

$$(a) \text{ Produce} - \text{Rent} = (\text{Wages} + \text{Interest})$$

or

$$(b) \text{ Produce} - (\text{Wages} + \text{Interest}) = \text{Rent}$$

From (a) we see that as Rent's proportion of the whole Produce increases (see Book IV), (Wages + Interest)'s proportion decreases.

From (b) we see that Rent is a surplus. Rent is what's left after Labor and Capital get the least which will maintain them, i.e. bring them into service.

* This is known as "Ricardian rent."