

Progress and Poverty

Class #10

Effects of the Remedy (Book IX)

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Think about this

There are people into whose heads it never enters to conceive of any better state of society than that which now exists—who imagine that the idea that there could be a state of society in which greed would be banished, prisons stand empty, individual interests be subordinated to general interests, and no one seek to rob or to oppress his neighbor, is but the dream of impracticable dreamers, for whom these practical level-headed men, who pride themselves on recognizing facts as they are, have a hearty contempt. **But such men**—though some of them write books, and some of them occupy the chairs of universities, and some of them stand in pulpits—**do not think**. (p. 464)

Progress and Poverty

Henry George makes socialism superfluous

Progress and Poverty

Henry George makes socialism superfluous

It is funny that in today's politics (March 2019), George may not be called a socialist, but by his standards and what he proposes, his Remedy

“realizes the dream of socialism.” (p. 456)

Progress and Poverty

Rent: *depends on the margin of cultivation/production* rising as it falls, and falling as it rises. (inverse with scarcity)*

Wages: depend on the margin of production, falling as it falls, and rising as it rises.

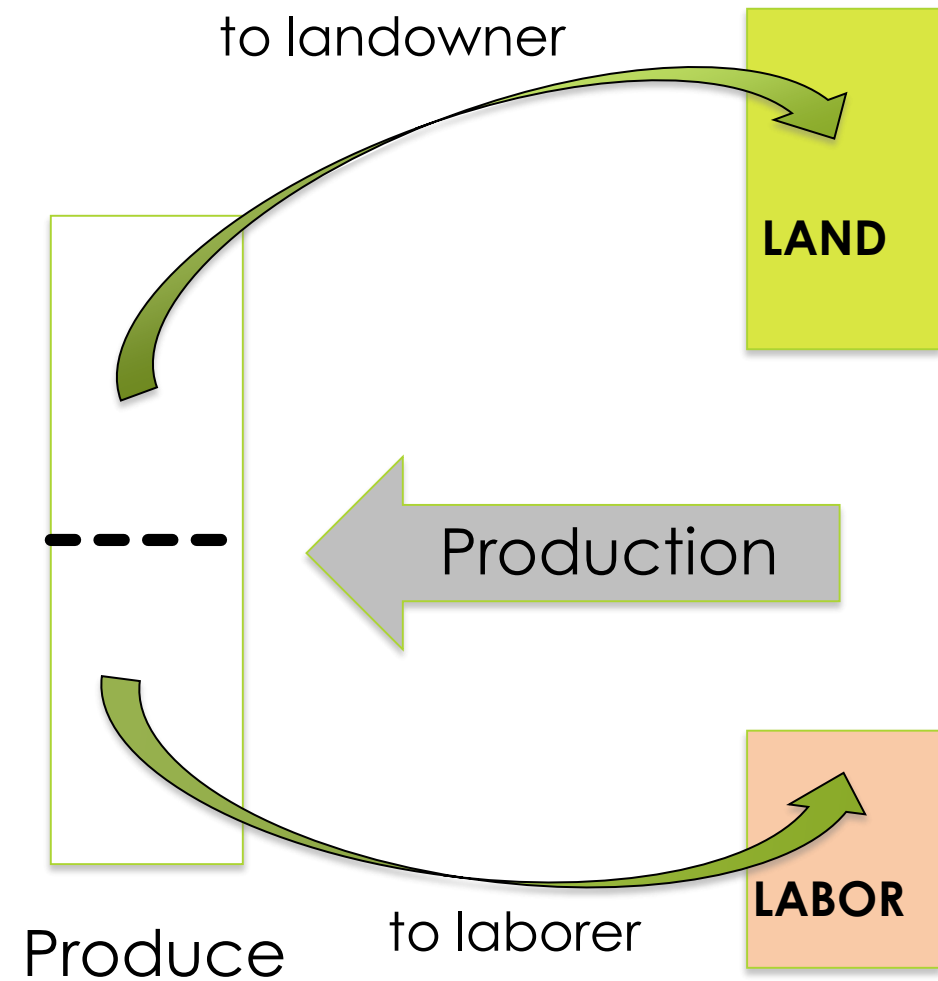
Interest: depends on the margin of production, falling as it falls, and rising as it rises *(note: its ratio with wages being fixed by the net power of increase which attaches to capital)* (p. 219)

*The margin of production is the best available opportunity, in a given place and time, for labor to employ itself (and capital to produce product) without the payment of rent. The level of wages available to labor at the margin of production determines the general level of wages in society.

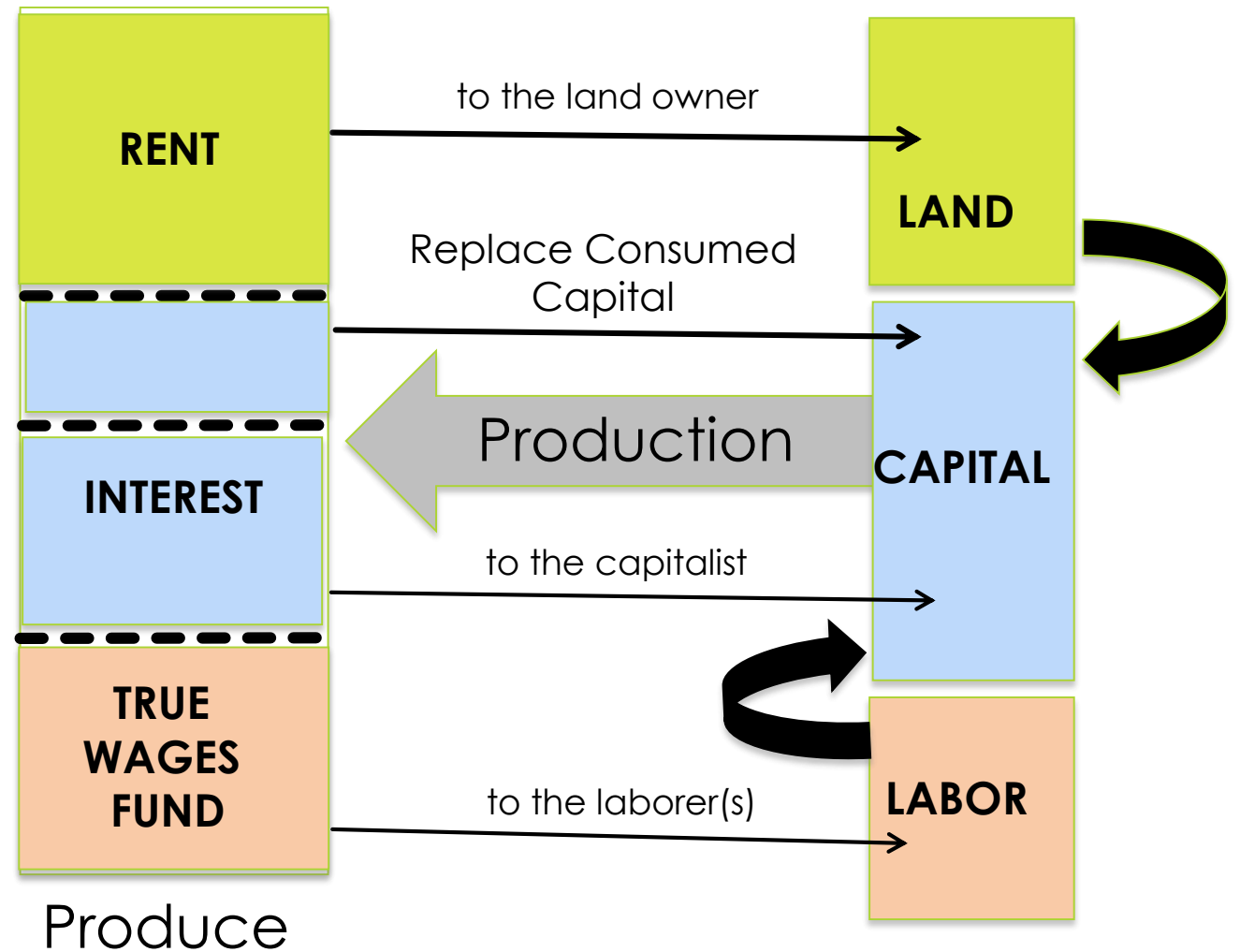
Progress and Poverty

- It's paradoxical – that the emergence of liberty from feudal bonds has been accompanied by a tendency in the treatment of land to a form of ownership which involves the enslavement of the working classes. (p. 380)

AGRICULTURAL PRODUCTION w/o (or limited) CAPITAL



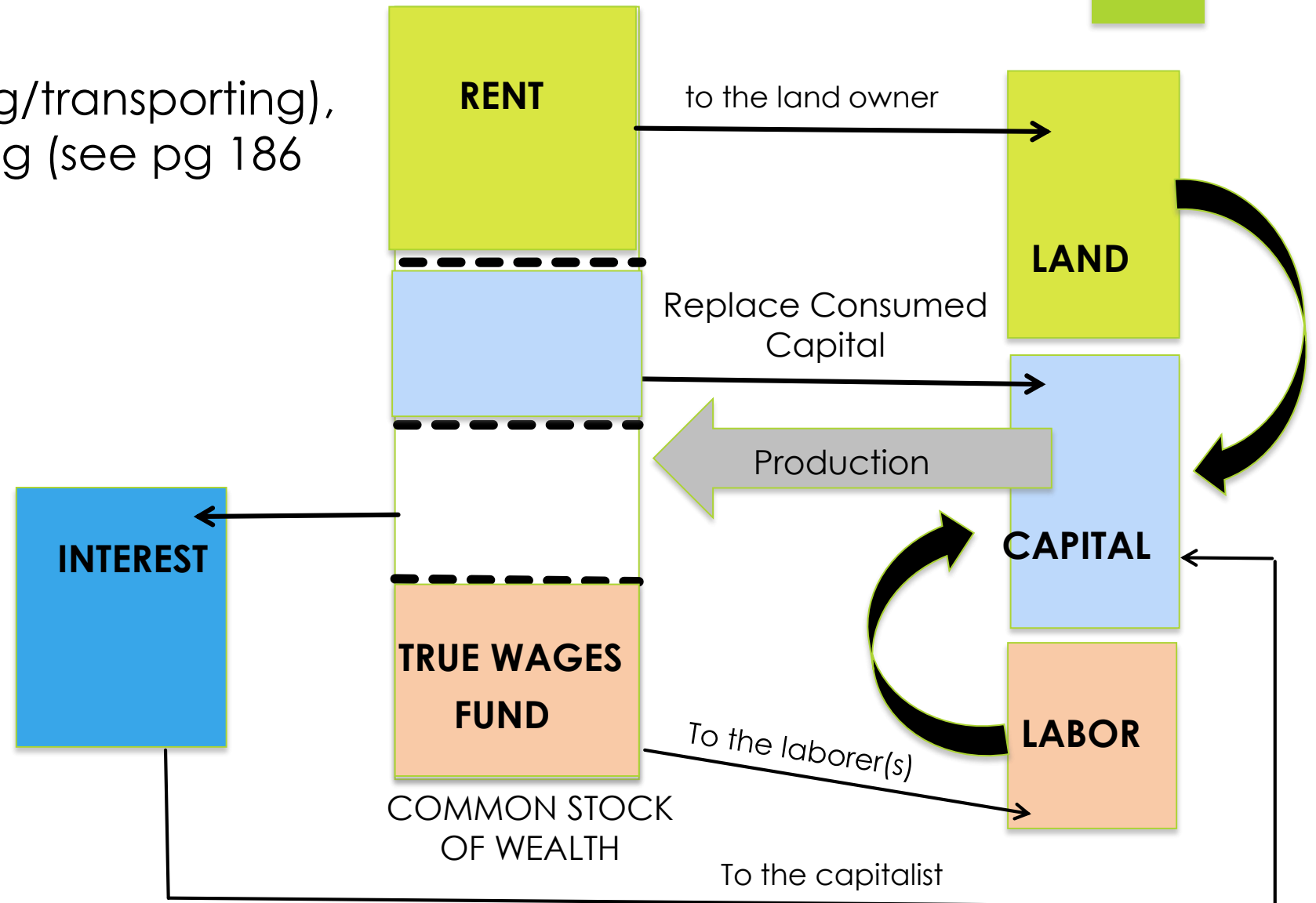
AGRICULTURAL PRODUCTION with CAPITAL



PRODUCTION* / FLOW OF WEALTH

9

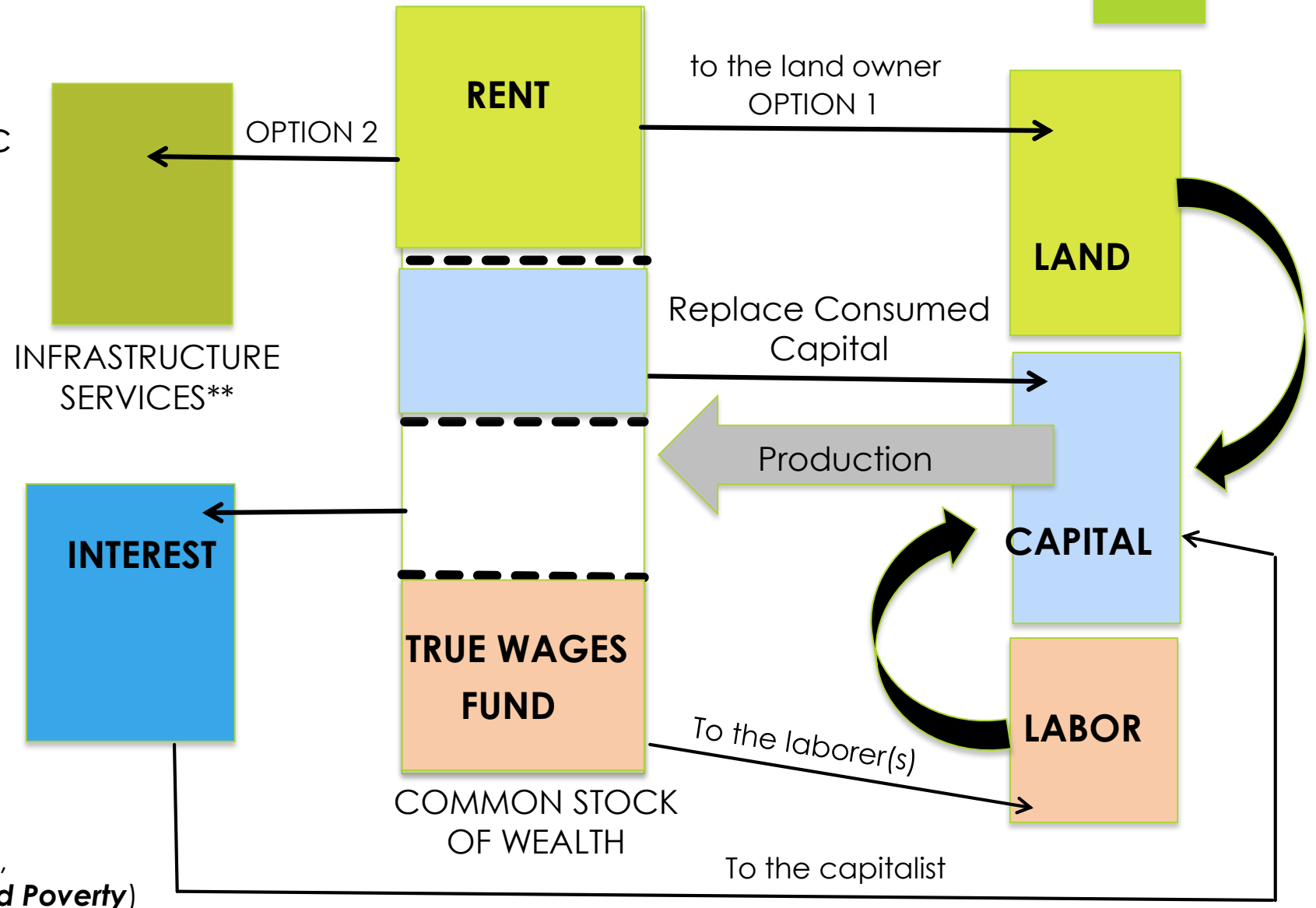
* Adapting (manufacturing/transporting), growing, and exchanging (see pg 186 of ***Progress and Poverty***)



PRODUCTION* / FLOW OF WEALTH

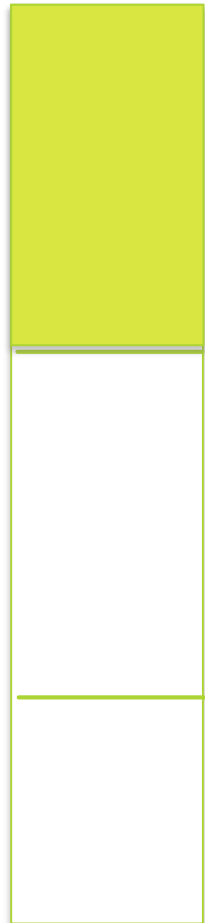
10

** 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

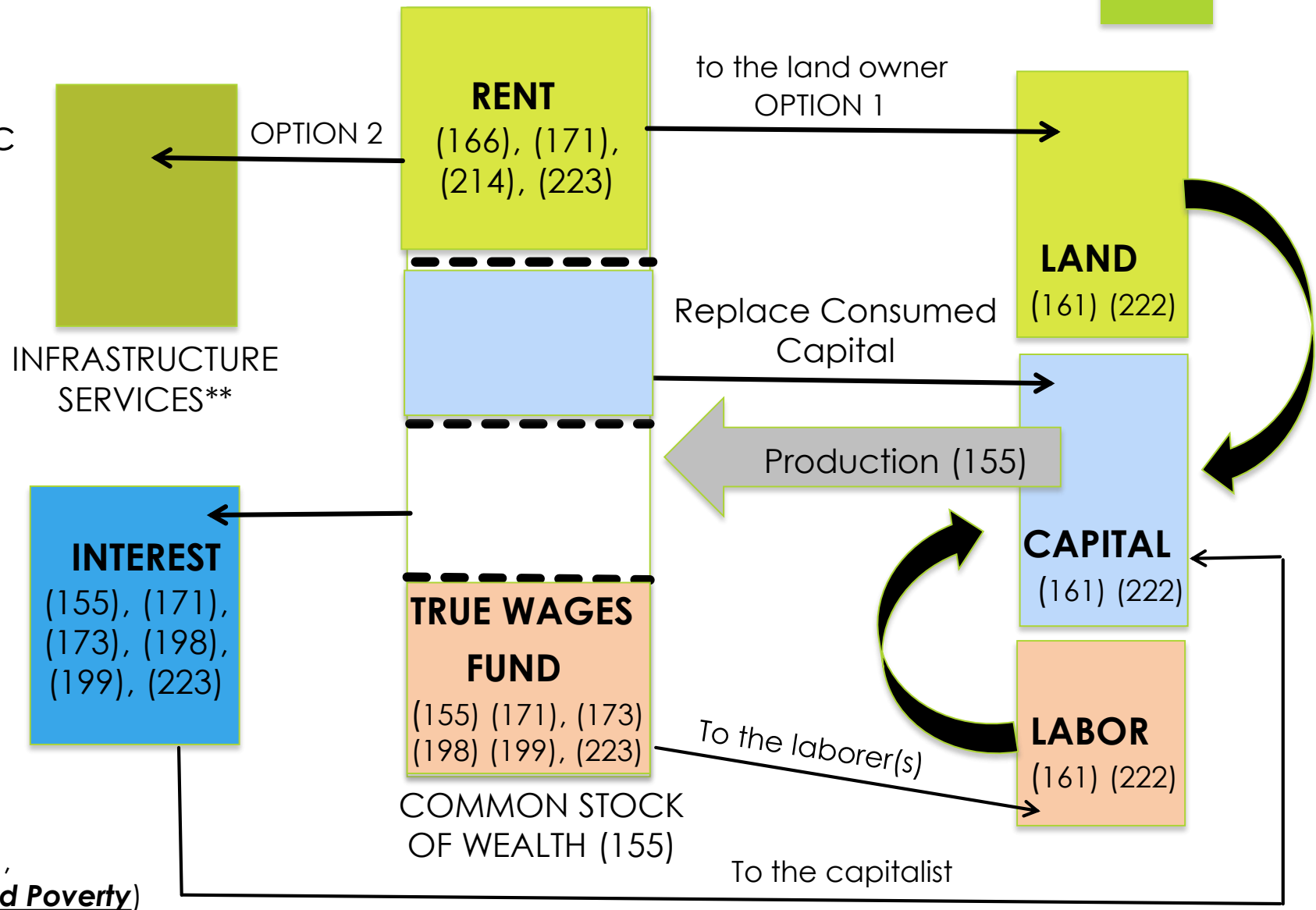


Community – in way of services
(**common pool** collective)

PRODUCTION* / FLOW OF WEALTH

12

** 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**)



Private sector

**Community
sector**

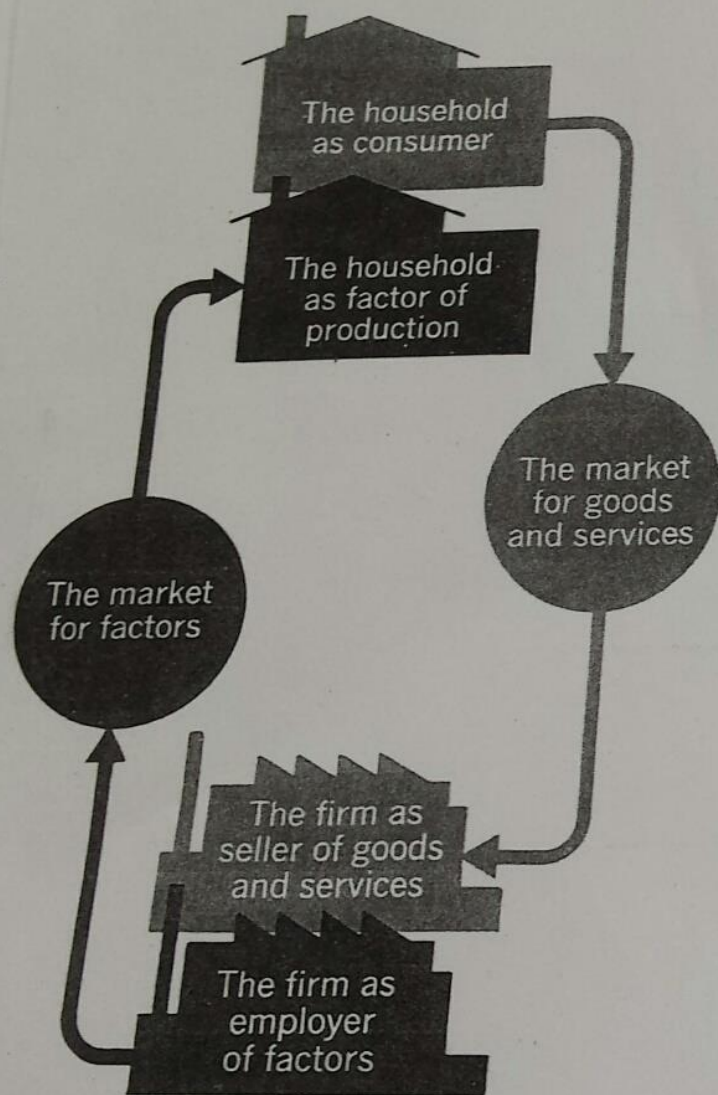


FIGURE 7 · 1
Circular flow in microview

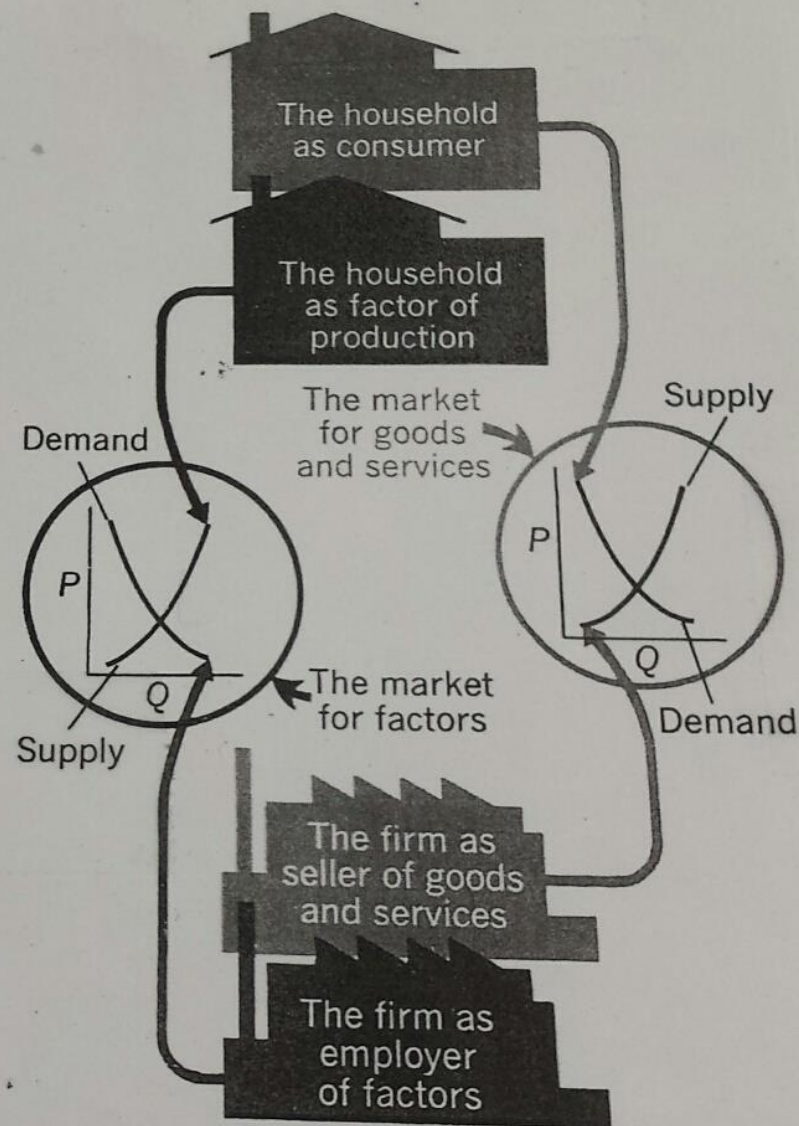


FIGURE 7 · 2
Demand and supply curve in the
circular flow

- Figure 7.1 organizes complexity of the marketplace into a few very simple (and misleading – Marty says) overall elements, where nirvana appears when demand and supply find equilibrium.
- The world is divided into households and firms.
- **Government is omitted**, unless you want to group it with firms for some (misguided – Marty says) reason.
- Heilbroner & Thurow make no provision for the identification and/or capture of rents that could move society toward a just distribution of wealth.
- Essentially, the authors are OK with social inequality and do their hardest to apologize that the world is as just as it needs to be, a proverbial unjust equilibrium – slaves and slave masters, kings of speculation and homeless, unemployed, or underpaid laborers.

UNDERSTANDING MICROECONOMICS, *third edition*
by Robert L. Heilbroner and Lester C. Thurow

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How today's class begins

*To abolish the taxation which, acting and reacting, now hampers every wheel of exchange and presses upon every form of industry, would be like **removing an immense weight** from a powerful spring. (p. 434)*

Progress and Poverty

Class #10 – Book IX: Effects of the Remedy

Chapter 1: Of the effect upon the production of wealth

Chapter 2: Of the effect upon distribution and thence upon production

Chapter 3: Of the effect upon individuals and classes

Chapter 4: Of the changes that would be wrought in social organization and social life

Book IX, Chapter 1

Of the effect upon the production of wealth

Book IX, Chapter 1 – Effect on Prod of Wealth

19

- ▶ Community gains by refusing to kill the goose that lays golden eggs (p. 435)
- ▶ Refraining from muzzling the ox that treadeth out the corn (Deuteronomy 25:4); i.e., allow the ox to eat from part of his labor while he treads out the grain. (p. 435)
- ▶ Every productive enterprise, besides its return to those who undertake it, yields collateral advantages to others. (p. 435) *First to identify what is now called “positive externalities.” To George, these advantages were NOT outside of the circular flow!*

Book IX, Chapter 1 – Effect on Prod of Wealth

20

- ▶ Fruit tree ...rain which it helps to attract falls not alone on his field. (p. 435) *An early ecologist, to recognize climate effects of forestation.*
- ▶ (Production) benefits others besides those who get the direct profits; nature laughs at a miser. (p. 436) *This statement exposes the banal simplicity of the Heilbroner/Thurow circular economic flow.*
- ▶ (With George's Remedy) the selling price of land would fall; land speculation would receive its death blow; land monopolization would no longer pay. (p. 436)

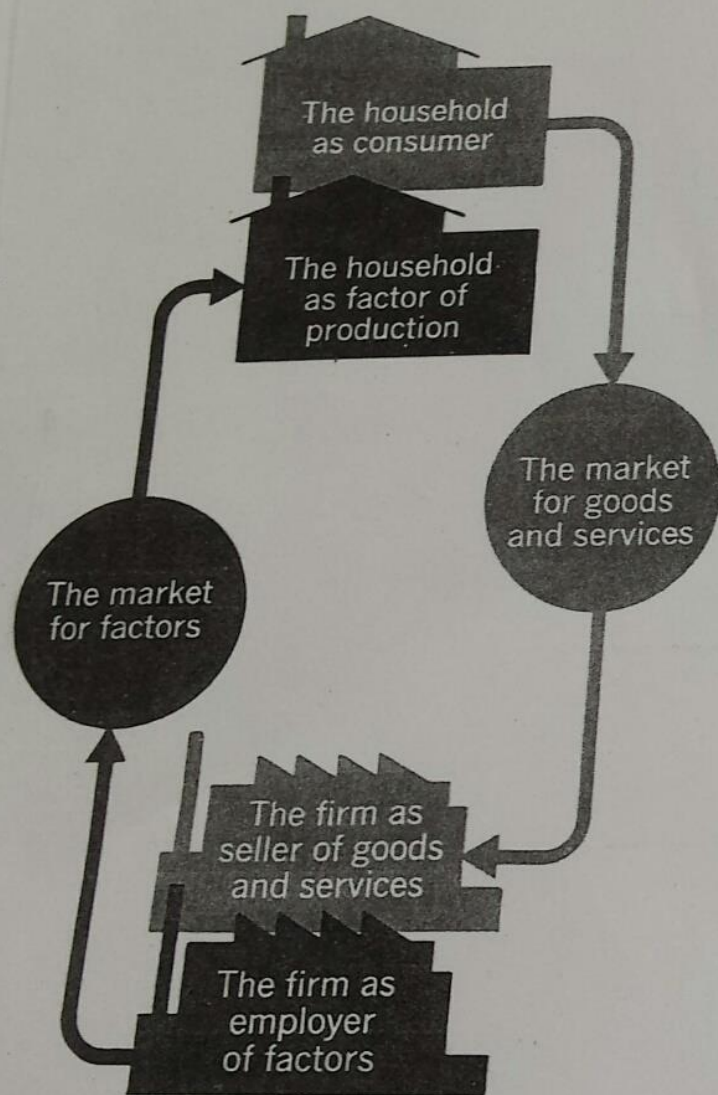


FIGURE 7 · 1
Circular flow in microview

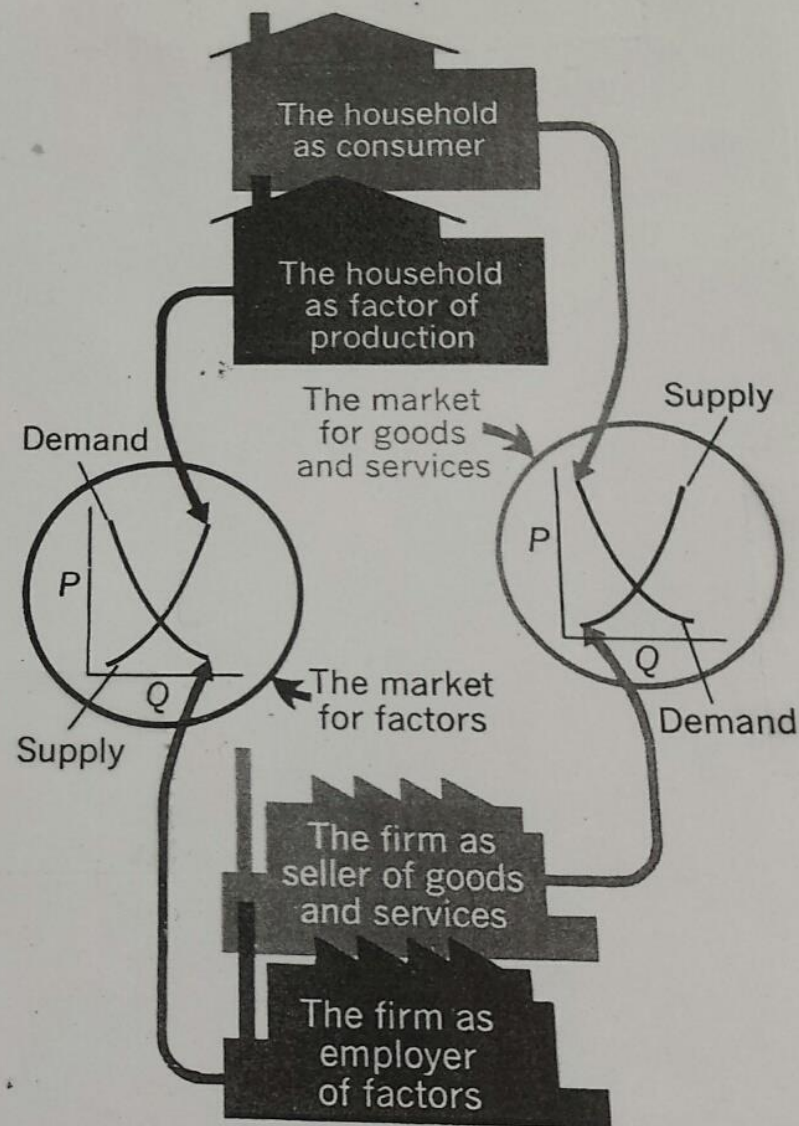


FIGURE 7 · 2
Demand and supply curve in the
circular flow

Book IX, Chapter 1 – Effect on Prod of Wealth

22

- ▶ Placing all taxes on the value of land (is like) putting up the land at auction to whomsoever would pay the highest rent to the state; demand for land fixes its value (p. 437)
- ▶ Speculators would be taxed as much as though his land were covered with houses and barns. They would pay for the privilege of keeping other people off of it. (p. 437)
- ▶ (Payments to the state) would be made in lieu of all taxes now levied upon improvements, machinery, and stock. (p. 438)

Book IX, Chapter 1 – Effect on Prod of Wealth

23

- ▶ Employers of labor – not only compete against other employers, but against the ability of laborers to become their own employers. (p. 438)
- ▶ Recurring paroxysm which paralyze industry would cease (with the Remedy implemented). (p. 439)

Book IX, Chapter 2

**Of the effect upon distribution and thence
upon production**

Book IX, Chapter 2 – Effect on distribution/prod

25

- ▶ George calls infrastructure asset services “public burdens;” the advantages of a land tax cannot be fully appreciated until we consider the effect on the distribution of wealth. (p. 440)
- ▶ Private ownership of land allows wealth to be transferred from labor and capital to private hands. (p. 440)
- ▶ Destroy this inequality by taxing the whole of rent to promote equality. (p. 440)

Book IX, Chapter 2 – Effect on distribution/prod

26

- Wealth, then, would be divided into two portions: In wages and interests; then to the community as a whole, distributed in public benefits to all its members. (p. 441)



Book IX, Chapter 2 – Effect on distribution/prod

27

- ▶ The one part is the result of individual effort, and the other the increased power with which the community as a whole aids the individual. (p. 441)
- ▶ In so doing, private ownership in land is abolished (p. 442)

Book IX, Chapter 2 – Effect on distribution/prod

28

- ▶ Labor and capital gain by the positive decline in rent by the decrease in speculative land values; a new equilibrium is established with rates of wages and interests much higher. (p. 442)
- ▶ The enormous advantages of a dense population would be united with freedom and equality, only found occasionally. (p. 443)
- ▶ There are losses to society when poverty is high – England (1879) maintains over a million paupers on official charity; NYC spends over 7 million dollars/year in a similar way. (p. 443)

Book IX, Chapter 2 – Effect on distribution/prod

29

- ▶ Efficiency of labor increases with higher wages; self-respect, intelligence, hope, energy. (p. 444)
- ▶ Man is not a machine; nor animal where powers reach thus far and no further. (p. 444)
- ▶ Who can say what infinite powers the wealth-producing capacity of labor may be raised? (p. 444)
- ▶ It is so unnatural and absurd, the spectacle of men who have only a few years to live, slaving away their time for the sake of dying rich. (p. 446)

Book IX, Chapter 3

Of the effect upon individuals and classes

Book IX, Chapter 3 – Effects on individuals/classes

31

- ▶ Land owners not only have NO claim to compensation for the Remedy – they will not really be injured! (p. 447)
- ▶ It is true that the value of lots will diminish or disappear; however, he retains the same security of always having a lot that he had before. (p. 448)
- ▶ Take a man who bought some boots; is he a loser when the price of boots falls? (p. 448)

Book IX, Chapter 3 – Effects on individuals/classes

32

- ▶ Taxation today (as it did in 1879) falls on that landowner with peculiar severity – houses, barns, fences, crops, stock. (p. 449)
- ▶ But it is in the city where land values are high, and where weight of the land tax would be felt; agricultural areas would be lightly touched. (p. 450)
- ▶ It would down great fortunes, but would impoverish no one. (p. 452)

Book IX, Chapter 3 – Effects on individuals/classes

33

- ▶ Wealth would be distributed with the degree in which the industry, skill, knowledge, or prudence of each contributed to the common stock; the non-producer would no longer roll in luxury, while the producer got the barest necessities. (p. 453)
- ▶ National debts would not long survive the abolition of the system from which they spring. (p. 453)
- ▶ How many men are there who fairly earn a million dollars; indeed! (p. 453)

Book IX, Chapter 4

**Of the changes that would be wrought in
social organization and social life**

Book IX, Chapter 4 – Changes to social life

35

- ▶ There would be a saving of strain in the courts; much of their business concerns disputes over land ownership; this would cease as the state becomes the sole owner of land, and occupiers, rent-paying tenants. (p. 454)
- ▶ Get rid of judges, bailiffs, clerks, prison keepers, and great host of lawyers whose talents are wasted; let them turn to higher pursuits. (p. 455)
- ▶ (With the Remedy) we realize the dream of socialism; not through government repression. (p. 456)

Book IX, Chapter 4 – Changes to social life

36

- ▶ George identifies these infrastructure assets and their services: Public baths, museums, libraries, gardens, lecture rooms, music and dancing halls, theaters, universities, technical schools, shooting galleries, play grounds, gymnasiums, heat, light, motive power, railroads, gas works, water, roads lined with fruit trees, discoverers and inventors rewarded, scientific investigations supported – all for the public benefit. (p. 456)
- ▶ Government would administer a great cooperative society. (p. 456)
- ▶ Get money – honestly, if you can, but at any rate get money! This is what society tells us 24/7. (p. 460)

Book IX, Chapter 4 – Changes to social life

37

- ▶ A wealthy man is admired, but it is not in the guise of a hideous monster that Satan tempts the children of men, but as an angel of light. (p. 460) **Consider the debates about African charity (Bill Gates) and the pressing need of national development that charity forestalls.**
- ▶ Give labor a free field and its full earnings; take for the benefit of the whole community that fund which the growth of the community creates, and want and the fear of want would be gone. (p. 461)
- ▶ Shortsighted is the philosophy which counts on selfishness as the master motive of human action. (p. 462) **So much for Adam Smith's invisible hand.**

Book IX, Chapter 4 – Changes to social life

- ▶ Self-interest is a mechanical force; human nature is a chemical force which melts and fuses and overwhelms, nothing seems impossible; heroes and saints are never selfish; human nature is the electricity of the moral universe. (p. 462-3)
- ▶ We are made for cooperation, like feet, like hands, like eyelids, like the rows of the upper and lower teeth. (p. 463)
- ▶ Banish want and fear of want and men become simply idlers? That's the old slaveholders' argument, that men can be driven to labor only with the lash. Nothing is more untrue. (p. 466)

Book IX, Chapter 4 – Changes to social life

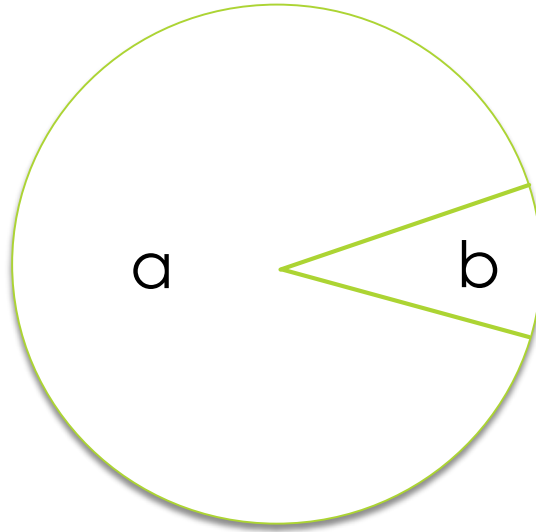
- ▶ Man is the constructive animal; he builds and improves. (p. 466)
- ▶ To assume the cooperative form, the more equal diffusion of wealth would unite capitalist and laborer in the same person. (p. 468)
- ▶ Work would become a lightsome thing, less monotony, shorter hours, more intellectual occupations, less productive forces going to waste. (p. 468)

How today's class ends

*I have now **traced to their source social weakness and disease**. I have shown the remedy. I have covered every point and met every objection. But the **problems** that we have been considering, great as they are, **pass into problems greater yet** – into the grandest problems with which the human mind can grapple. I am about to ask the reader who has gone with me so far, to go with me further, into still higher fields. But I ask him to remember that in the little space which remains of the limits to which this book must be confined, I cannot fully treat the questions that arise. (p. 471)*

END

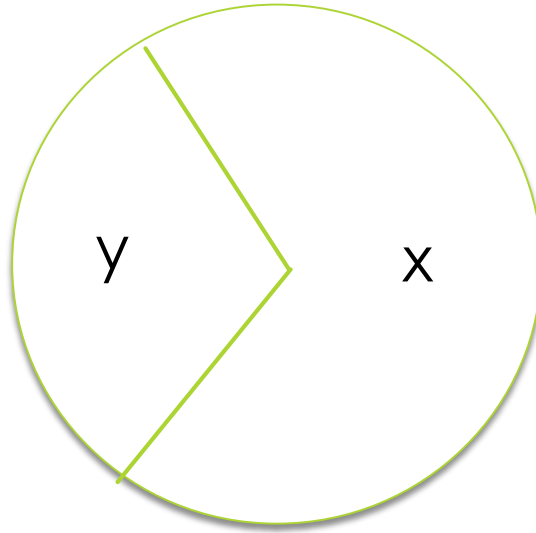
Revenues



a = mediate revenue
b = immediate revenue

Revenues for Infrastructure

Outlays

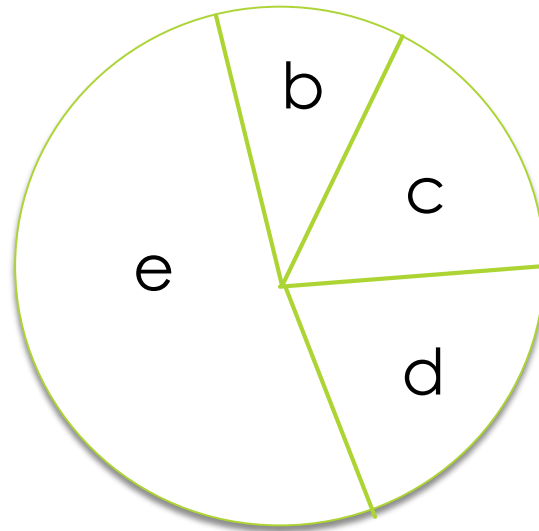


x = ordinary expenses (current services)

y = capital improvement expenses (extraordinary, capital)

Outlays for Infrastructure

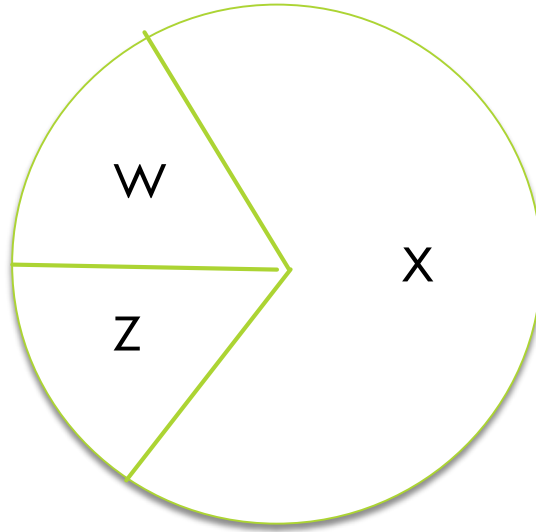
Revenues



- b = immediate revenue (private source)
- c = capital improvement funds (mediate)
- d = capital project-generated revenue (mediate)
- e = non-private source of revenue (mediate)

Mediate Revenues and Immediate Revenues

Outlays



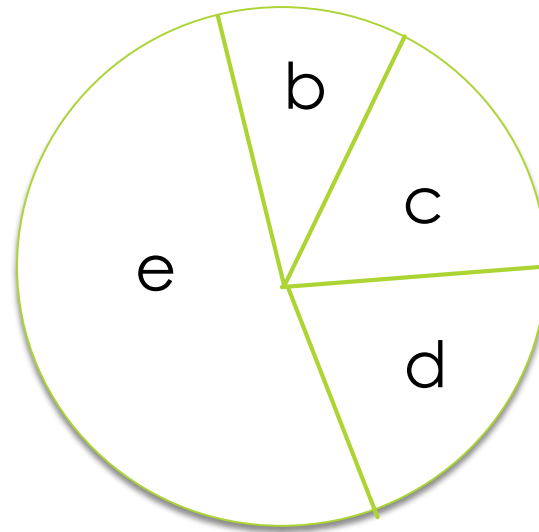
x = ordinary expenses (current services)

w = capital improvement project-related outlay

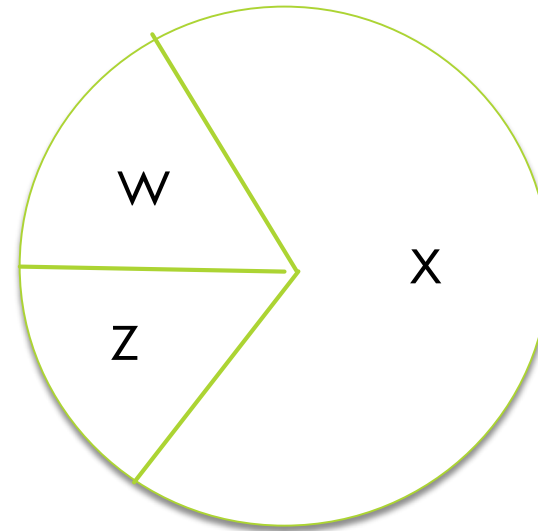
z = capital improvement debt retirement outlay

Ordinary Expenses and Extraordinary Expenses

Revenues



Outlays

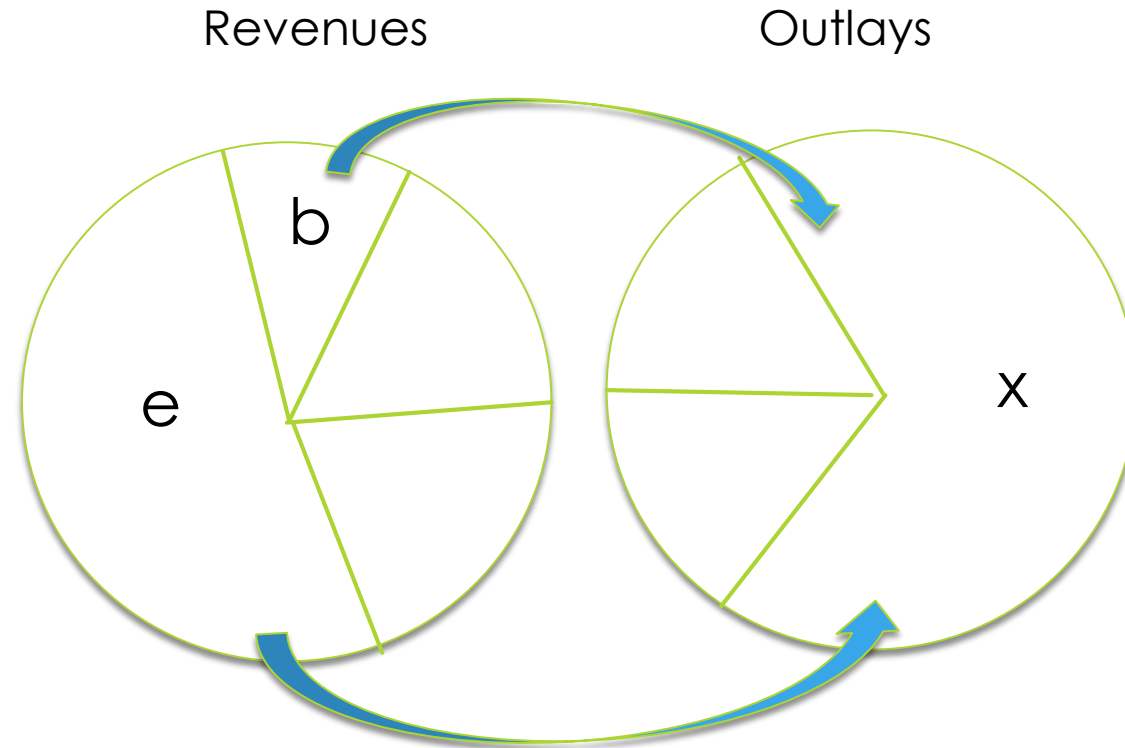


$a = e + c + d$: mediate revenue (means)
b = immediate revenue (ready means)
c = capital improvement revenue
d = capital project-generated revenue
e = non-private source of revenue

w = capital project-related outlay
x = ordinary outlay (current services)
 $y = w + z$: capital improvement outlay
z = capital debt retirement outlay

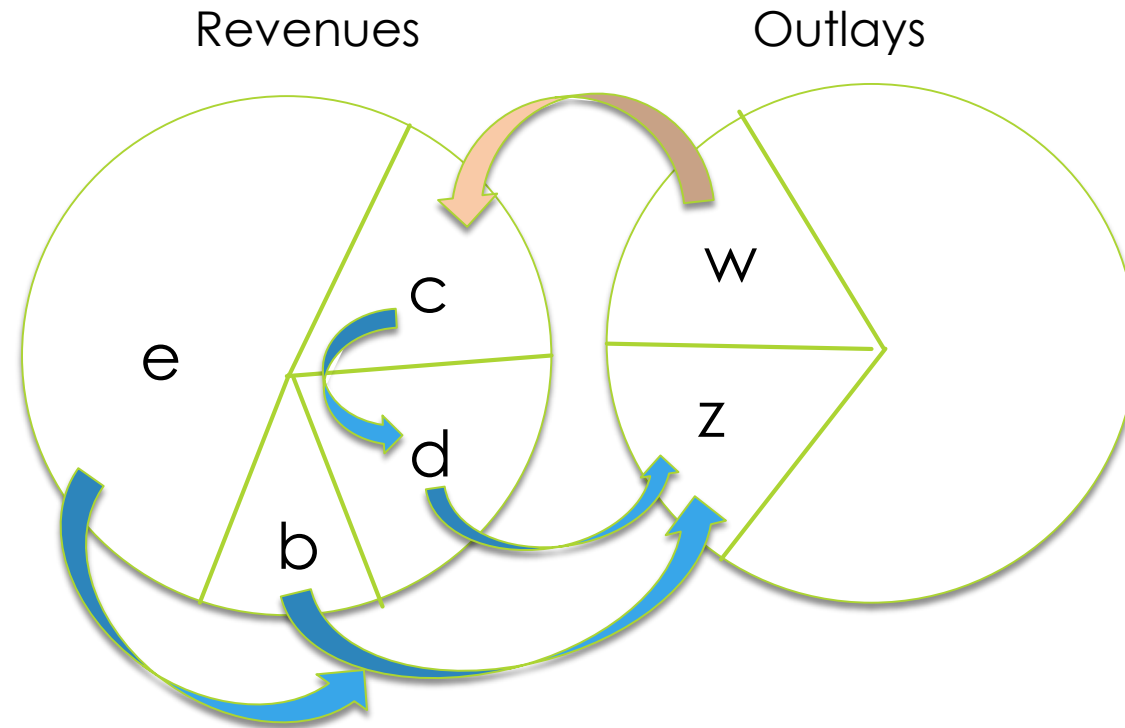
Elements of Revenue and Outlay

OM&M Spending Flows



b = immediate revenue (private source)
e = non-private source of revenue (mediate)
x = ordinary expenses (current services)

Capital Spending Flows



b = immediate revenue (ready means)
c = capital improvement revenue
d = capital project-generated revenue
e = non-private source of revenue

w = capital project-related outlay
z = capital debt retirement outlay