

Economics of Sustainable Prosperity

Marty Rowland

December 5, 2019 – Class #3

6:30 - 8:00 pm

Henry George School of Social Science

149 E. 38th Street, NYC, 10016

This Course

Raison d'être

- Taking on of topical issues and the failures of mainstream economics in the way Henry George would have presented them



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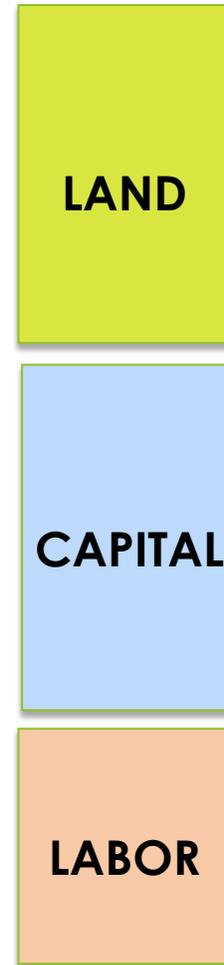
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- Or perhaps, at least, she/he will understand that such prosperity could be a logical possibility



3 factors of production

- Land
- Labor
- Capital



Distribution of wealth

➤ Rent

➤ Wages

➤ Interest

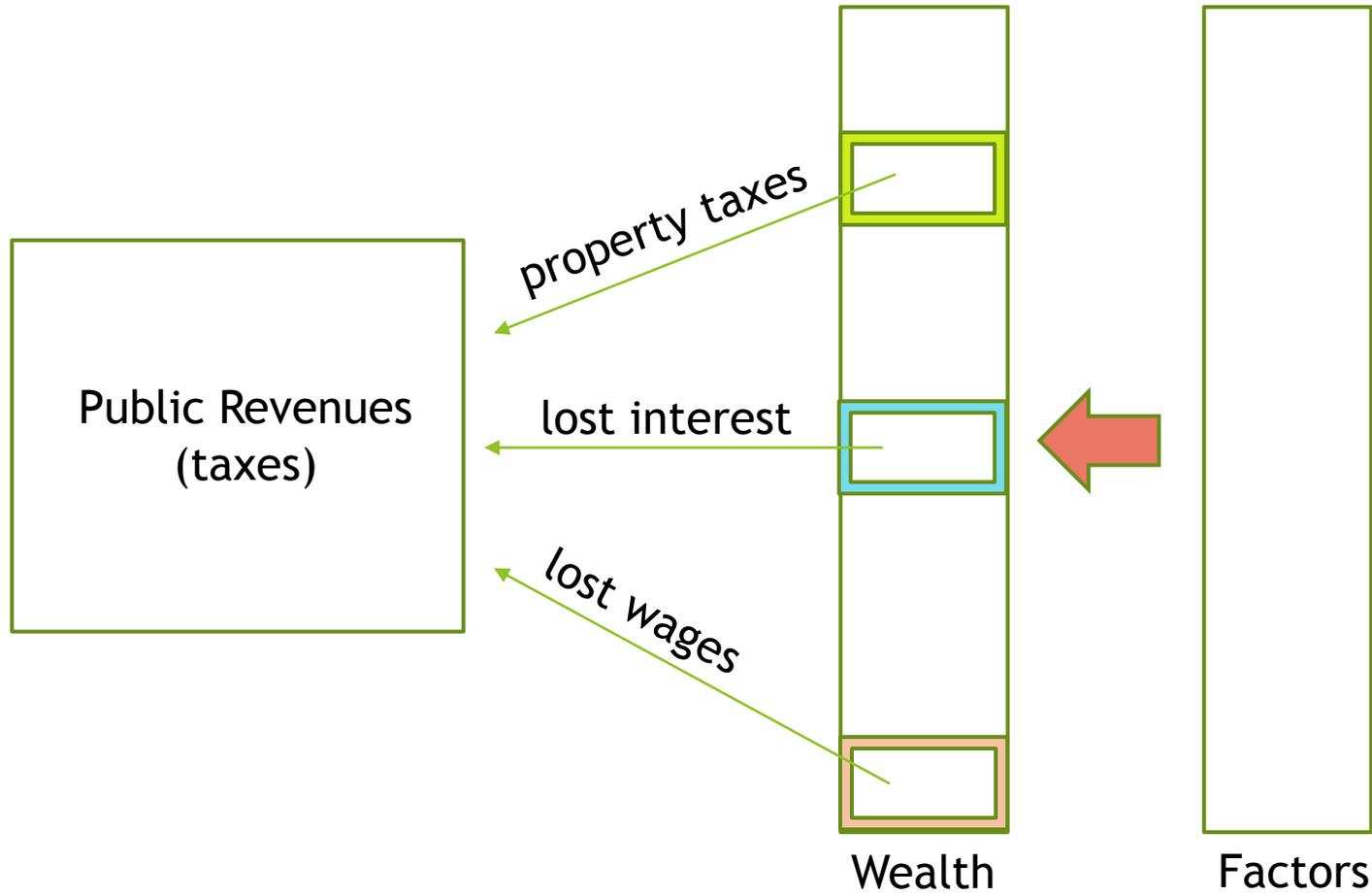
RENT

Replace
Consumed
Capital

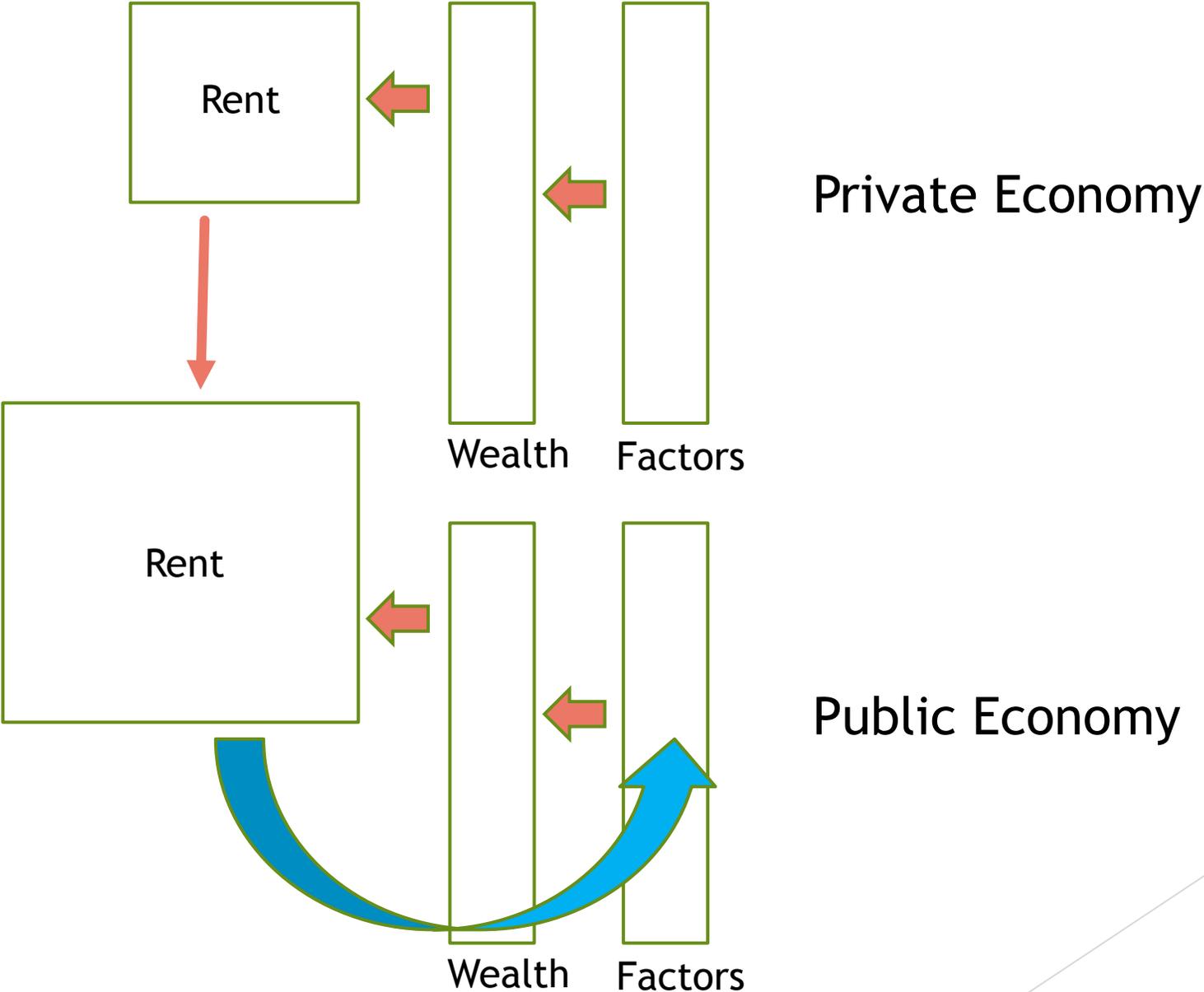
INTEREST

**TRUE WAGES
FUND**

Flow of Wealth - Today



Flow of Wealth - Return/Recycle



Prosperity and Climate Change - Class 3

- Introducing cooperation into economics discussion
- Davies' chapters 4, 5, 6; profits, boom-bust, land and justice
- Capital, interest, profits
- Boom-bust cycle
- Land and justice
- Ostrom: 8 principles of cooperative economics
- Bromley: 4 property regimes / exhaustion and exclusion
- Rowland: 7 transition factors to cooperative economics

Cooperation into economics discussion

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Cooperation into economics discussion

- Cooperative economics is the science of abundance (as opposed to scarcity)
- In Georgist economics LABOR cooperates with CAPITAL, and vice versa
- In mainstream economics, the landowner deceives the capitalist and society that she/he is their friend, that her/his success means their success
- Only in Georgist economics is LABOR the critical factor (not CAPITAL) toward fair markets, where cooperation reveals priorities for collective wealth in correction of social maladjustments

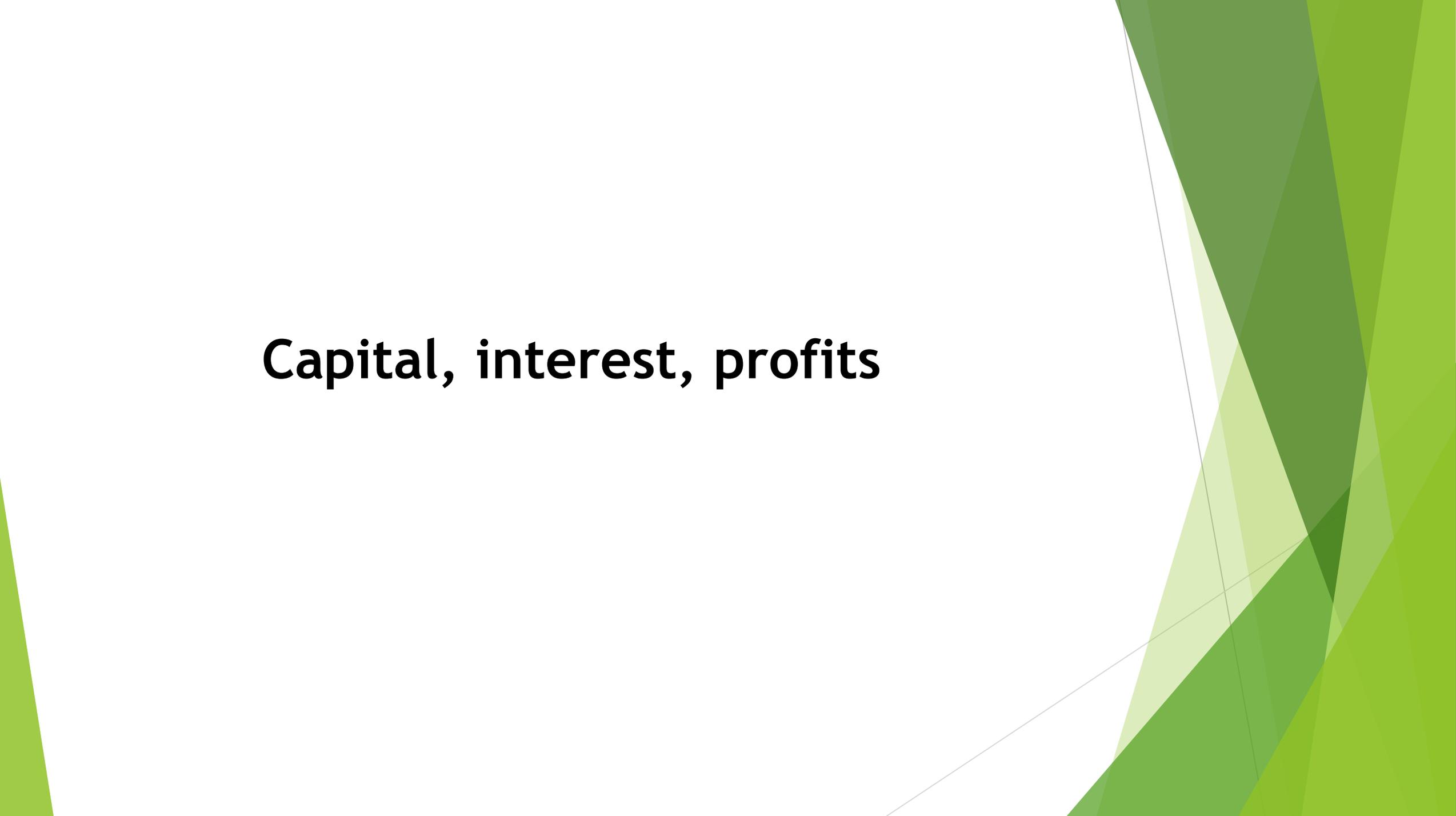
Special note

- Before we get too far into today's discussions, take note of the one-page handout entitled: 6 HG Principles
- Each explains a principle that is well-established within the curriculum of the HGSSS
- The instructor asks that any student having a question that relates to any of those six principles wait until the end of class, when it will be addressed

Davies' chapters 4, 5, 6

- First 3 chapters describe “dismal” economic problems
- Next three describe how to fix it
- Chapter 4 - Capital, interest, profits
- Chapter 5 - Boom-bust cycle
- Chapter 6 - Land and justice

Capital, interest, profits

The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. These shapes are primarily located on the right side of the frame, creating a modern, layered effect. The text is centered on the left side of the image.

Capital, interest, profits

- **CAPITAL** - wealth used to create more wealth; wealth increase/decrease during an exchange; produced by LABOR
- Not CAPITAL - land, people, nature, intellect
- ... takes no risk
- ... has no skills
- ... not money, bonds, stock certificates
- ... not a class of people

Capital, interest, profits

- *interest* - Georgists are very precise on what this means
- it is NOT bank interest
- it IS economic interest
- Return to physical wealth that is used in production (return to capital)

Capital, interest, profits

- profit - Georgists avoid using this word
- it is an *accounting* term
- includes a business' income minus expenses over a period of time, and includes all three factors of production
- for example - + wages, + interest, + rent, - expenses = profit
- should be obvious why term should not be used - instrumental to mainstream economics' deception about LAND (incorrectly viewed as CAPITAL)

Capital, interest, profits

- what is entrepreneurial profit?
- Realized profit over and above that which was originally planned / typically sought (i.e., the risk-averse option)
- That is, an opportunity cost that was pursued and realized
- A reward for recognizing fleeting or infrequent conditions
- Obscures role of LAND, just as with various types of “capital”

Capital, interest, profits

- entrepreneurship as economic profit
- when these terms are used in economic analysis, the unearned income from land rent is counted as “legitimate” income of risk takers
- whenever land rent is not taken for collective purposes, the recipient should be called a “corporate wealth-fare queen”
- land value aspect of economic profit is rightfully seen as an unearned payment to a passive factor (LAND)

Capital, interest, profits

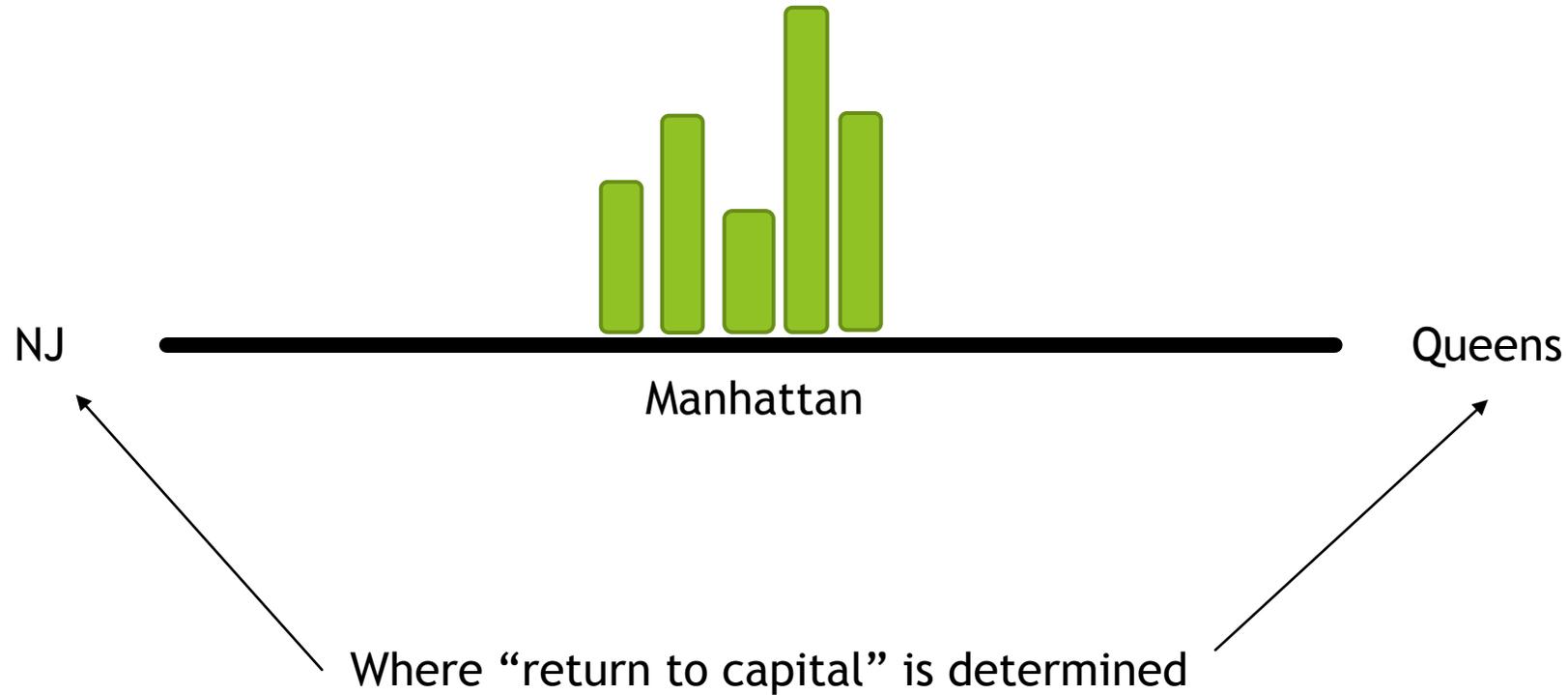
- entrepreneurship as economic profit
- important because economic profit is seen as legitimate income of risk-taking entrepreneurs
- it is *wrongfully* immune to criticism and taxation, *wrongfully* seen as backbone of the market economy
- well-hidden in conventional textbooks
- entrepreneurship is something *people do*, not what LAND does
- LAND decides nothing, takes no risk

Capital, interest, profits

- wealth distribution
- see page 52 for dynamic of wealth distribution
- rent goes up/down with equal tendency toward lower interest and lower wages
- rent varies inversely with interest and wages
- study illustration on next page
- when opportunities at the margin diminishes, return to labor and capital declines while rent increases - see pg 53

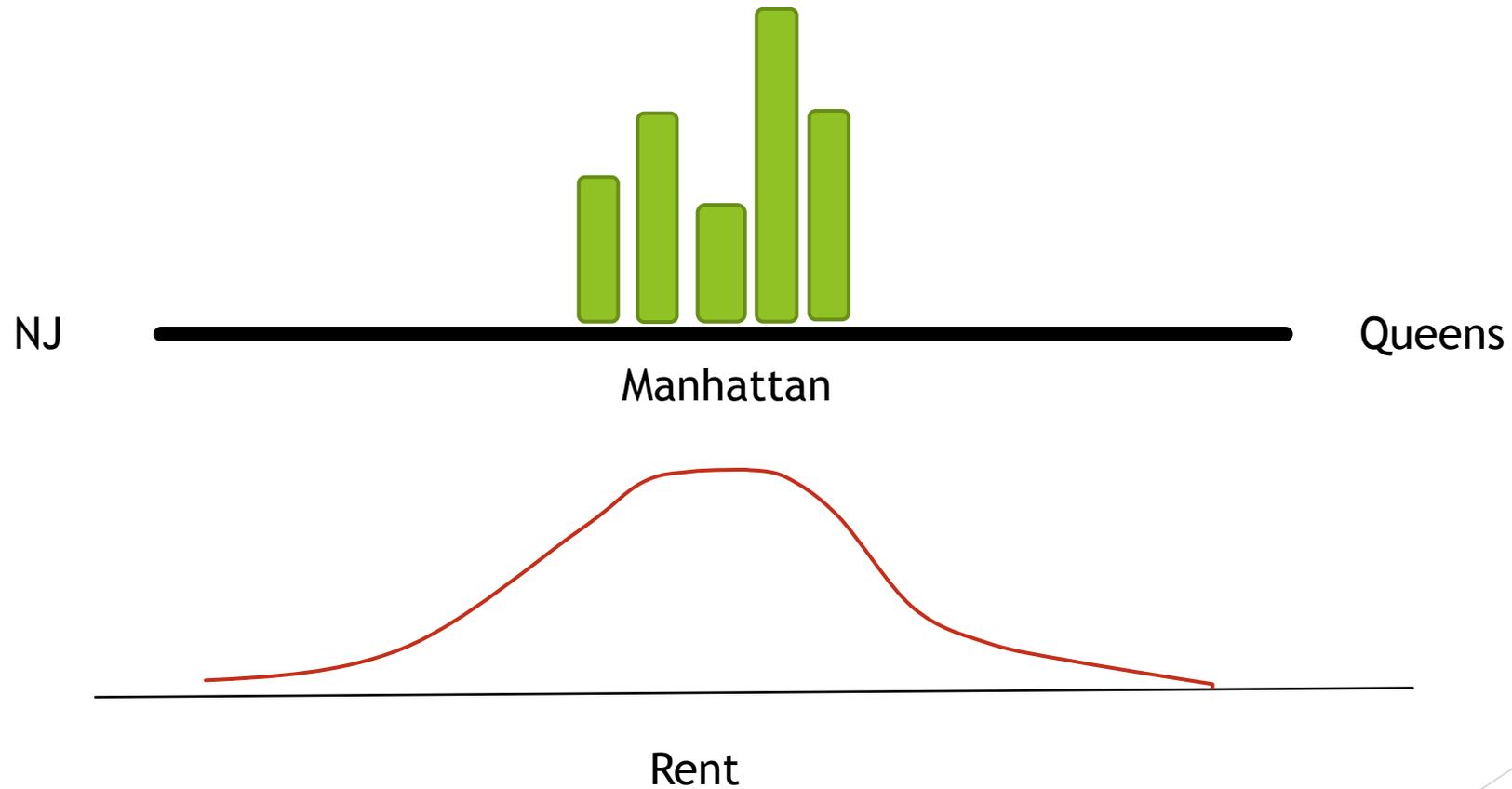
Capital, interest, profits

- margin of production/cultivation



Capital, interest, profits

- margin of production/cultivation



Capital, interest, profits

- wealth distribution
- as manufacturing and industrial occupations leave NJ and Queens, opportunity for rent increases
- land is too expensive in Mh to support manufacturing / industrial occupations
- “same application of capital” is not same as “application of same capital” because *capital is fungible* through money and banking
- George talks about “same application” in his phrasing of Law of Rent, pg 53

Capital, interest, profits

- wealth distribution
- at the frontier, land is free, so worker will work as much land as could be profitably used

Capital, interest, profits

- initiation of wealth
- wealth may be initiated with the use of bonds, commercial loans, or public credit - see table

Initiator	Incentive	Cost	Risk
Bonds	tax free	going rate of interest	mismanaged infrastructure
Commercial loans	low credit rating, no other choice of borrower	highest cost due to opportunity cost of issuer	default due to high cost
Public credit	public benefit, collective wealth	full faith of government, low cost for selected uses	default due to misplaced investment

Capital, interest, profits

- wealth distribution
- privilege and monopoly - not returns to capital, but rent-seeking returns
- easiest position to benefit from, and greedily protected through graft, deception, and corruption (sanctioned by all institutions of higher education)
- false dichotomy on page 58 of conservative vs liberal position on “capitalism” - i.e., growth/status quo, vs rights of labor, efficient allocations
- distinction hides fact that cooperation leads to human progress - George’s goal

Capital, interest, profits

- wealth distribution
- economics is never “value free” nor should it be
- Whereas Marx saw eventual end struggle of labor vs those with access to land, monopoly, privilege, and means of production ...
- George saw a bright future where labor/people shared a rightful share of natural opportunities, including 100% tax on unearned land values
- Includes locational land value, natural resources, clean environment, and other things in abundance (at one time)

Boom-bust cycle

The slide features a white background with abstract, overlapping green geometric shapes on the right side. These shapes include various shades of green, from light to dark, forming a complex, layered pattern that resembles a stylized landscape or a modern graphic design element.

Boom-bust cycle

- Cause: speculative rise of land prices; cuts into earnings of LABOR and CAPITAL
- LAND values rise faster than general economic growth
 - Not produced
 - Needed for all production
 - Takes an ever greater share of aggregate production
 - Burdens LABOR and CAPITAL
- LAND values rise faster than general economic growth
- Not all speculation the same
 - On products of LABOR; s/d acts as flywheel
 - Prices on LAND (almost) always go up

Boom-bust cycle

- In US, we've seen 200 yrs of land speculative cycles, 18 years in length
- Financial system makes it worse
 - LAND forms majority of collateral security
 - Huge portion of debt secured by owner-occupied real estate
- Do we think 2008 was unique?
 - 1920s, 30s had MBS, shoestring mortgages
- 1873 world-wide depression was backdrop for *Progress and Poverty*
- Urban density/intensity only with infrastructure (at public expense)
- Feeds logic of sprawl - borrow for as much land you can hold, near transit hubs

Boom-bust cycle

- Long view:
 - Low intensity use
 - Depressed areas
 - Gentrification
 - Tax subsidy/abatement
 - Annex suburbia, financed with home loans
 - Money created with land values
- LVT (or return and recycle) nips this process in the bud

Boom-bust cycle

- How shall we prepare for the coming collapse of Deutsche Bank with its hundreds of trillions worth of derivative-toxic assets?
- Maybe, write it off, holders take haircut
 - Perhaps capitalize international bank based on value of LAND on Mars
 - **Issue public credit on basis of strength of international efforts to explore space**
- Availability of credit more important than desirability of LAND
- Speculative bubbles always collapse
- Infrastructure provision is key to cycle
- Over supply of developed land - collapse

Boom-bust cycle

- Inflation not a concern of George in 1880s
 - Deflation of more common occurrence
 - Money linked to precious metals, low chance supply would increase drastically
 - Inflation decreases buying power
 - Deflation is the opposite effect
 - Greenbacks after Civil War allowed for a positive rate of inflation through 1890
 - 1930s macroeconomic pump priming used to soften downturns
 - Inflate: deficit spending, decrease interest rates
- Error on page 70 - banks DO have unlimited funds to loan
- This analysis obscures role of LAND in the economy

Boom-bust cycle

- LAND is priced by what it can yield in the future
- 2/3 of US families own/have equity in homes
- Inflation favors those who are already in debt; pay back with cheaper money
- Land owners favor inflation, at expense of LABOR and CAPITAL
- In a 100% Georgist LVT/return-recycle
 - Rent of LAND is taken in taxation
 - No rental income, but there is rental value
 - Nothing to capitalize
 - No selling price
 - Owning LAND would have no profit

Land and justice

Land and justice

- Very few people own the vast majority of the world's wealth
- Fertile land lays idle, while the poor and working class struggle
- LAND is often the foundation of the greatest fortunes
- Most of us pay land owners for the right to exist
- So, do we do the leftist thing and carve up the vast estates?
- No, we realize that untold wealth rests below the feet of the urban dweller

Land and justice (continued)

- It's now time to claim it for humanity
- Put it to use as public revenue to pay for infrastructure asset services
- Common property - not the physical land, but the land value
- As LAND is everything not made from LABOR, LAND is sunlight, wind, oil, clean air, clean water, clean soil, clean groundwater
- All this LAND can and should be taxed as a common resource, i.e., those who would foul our air, water, and soil or monopolize them

Ostrom: principles of cooperation

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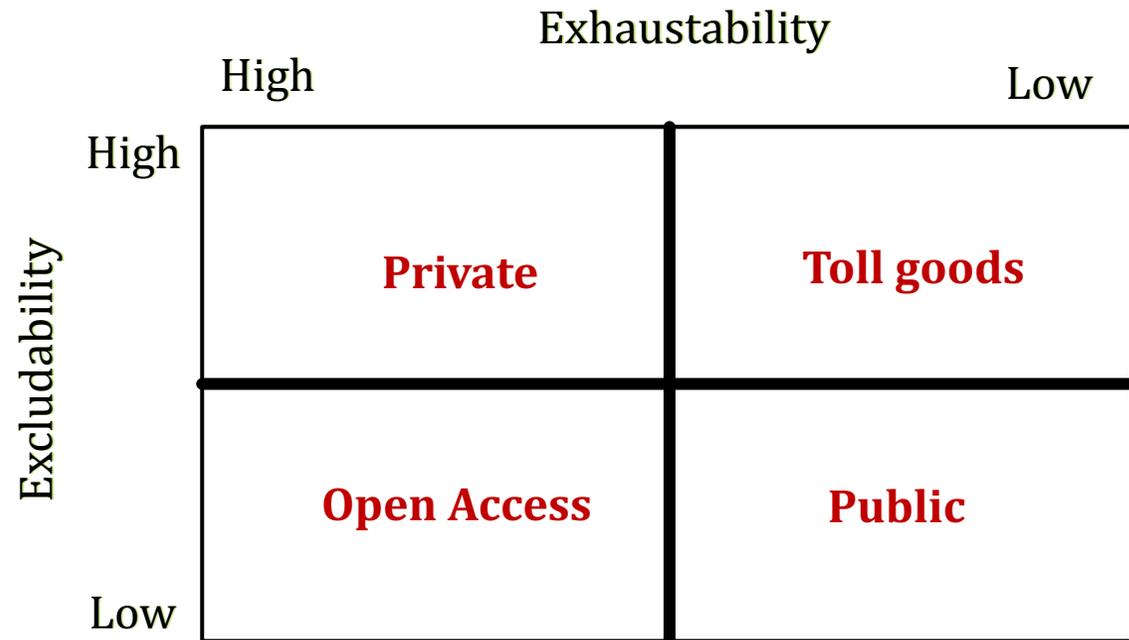
- In her debunking of the “tragedy of the commons” thesis, Ostrom identifies 8 principles that are always present when people collaborate to share a resource - across time, geography, cultures:
 - Clear definition of physical boundaries of the resource pool and membership of the user pool
 - Appropriation rules
 - Collective choice arrangements
 - Rights of appropriators to organize institutions
 - Monitoring compliance with collective decisions
 - Range of sanctions to fit the severity of violation of decisions
 - Low-cost conflict-resolution mechanisms
 - Sets of rules established within a hierarchy of appropriator institutions for resources within larger resource systems and political jurisdictions

Bromley: exhaustion and exclusion

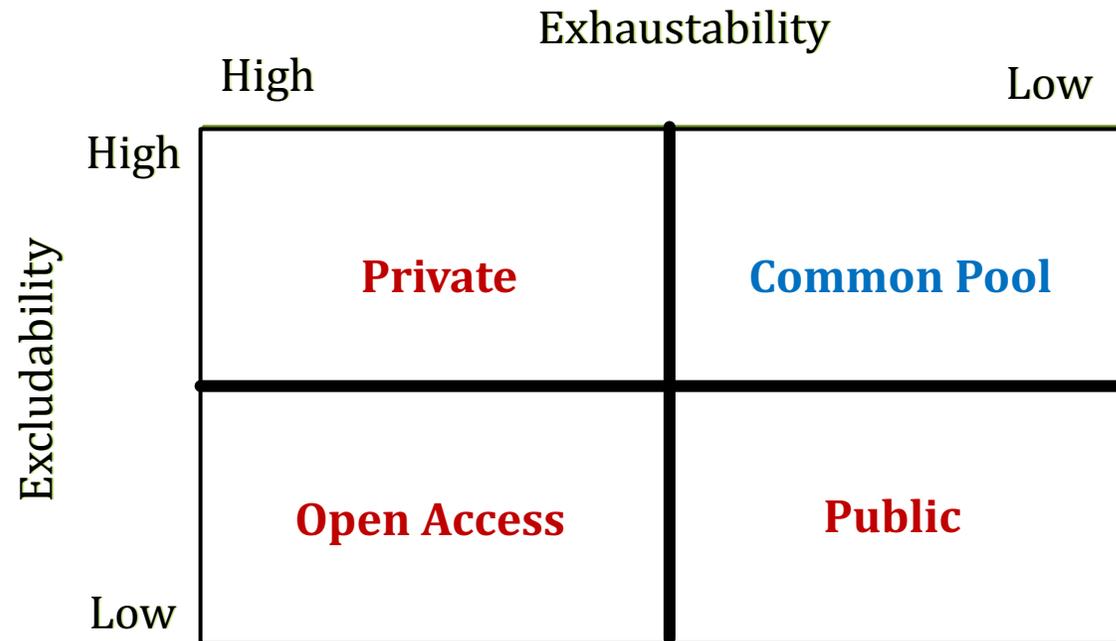
Bromley: exhaustion and exclusion

- Bromley has many ideas to his credit, but an early one retains lots of value
- Concerns four property regimes
- Whereas Bromley identifies collective property as "common property" Ostrom calls it "common pool"

Bromley: exhaustion and exclusion



Bromley: exhaustion and exclusion



Rowland: 7 transition factors

Rowland: 7 transition factors

- In his study of water management institutions, Rowland identified 7 factors always present when organizations transition from a state property regime to a common pool property regime:
 - Increased population growth
 - Increased resource usage
 - Impacts to resource or and environment
 - Resource access rights disputes
 - Improved understanding of resource flows of the area
 - Social and political climate favors change
 - Individual initiative taken to effect change

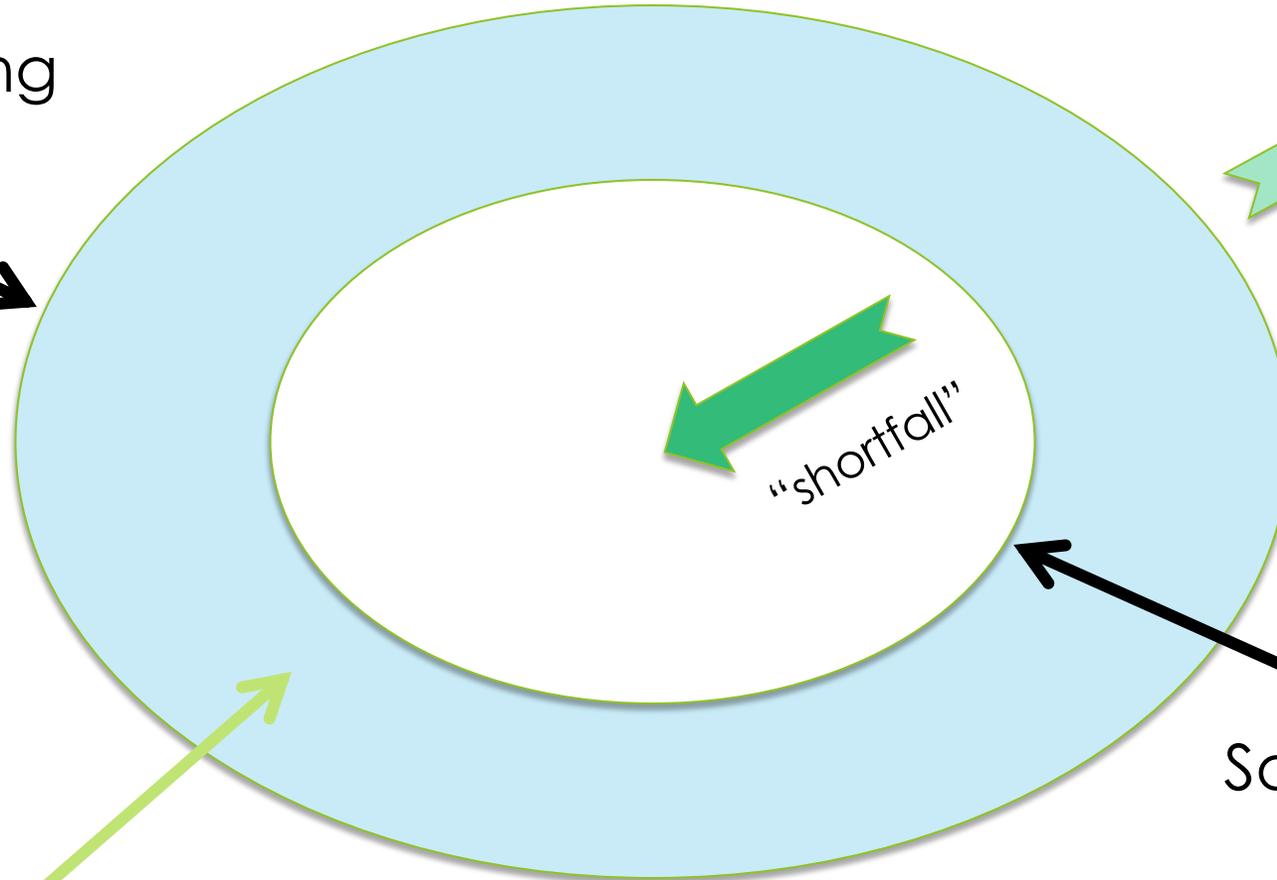
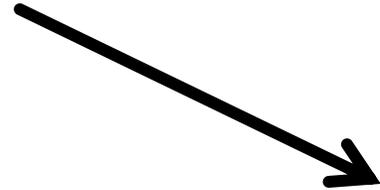
Questions



Doughnut Economy (Kate Raworth, 2017)

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Ecological Ceiling



"overshoot"

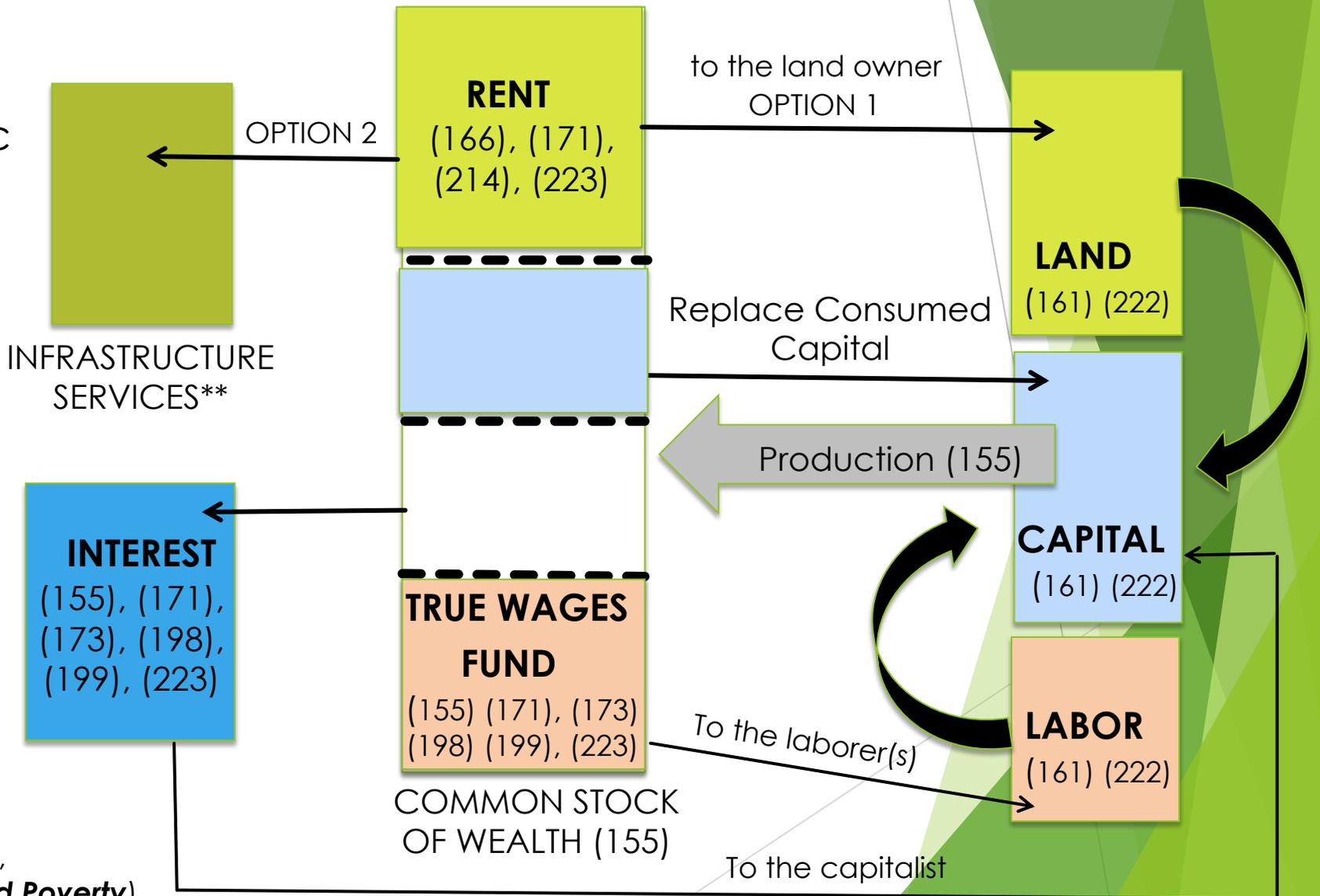
"shortfall"

Social Foundation

the safe and just space for humanity

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**)

Labor and production of wealth

- Money is not wealth, but only an intermediary, just as are bonds, stocks, and other promises

