

# Economics simplified,

Bowen, Elizabeth Ethel

# **Economics Simplified**

by **E. E. BOWEN, M.D.**

Edited by **GEORGE L. RUSBY**

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## FOREWORD

A wide-spread and urgent demand exists for information relating to the basic economic problems that confront our own country and the rest of the world. "Economics Simplified" is presented as a timely and valuable addition to the literature on the subject, setting forth the chief cause of our economic ills and, with equal clarity, the remedy.

The ten chapters of this book, with the accompanying review questions (included to insure that the student shall comprehend what has gone before), comprise the ten sections of a series of notes used by the author who, for many years, conducted classes for the study of economic principles. The method of presentation followed was found to be highly efficient. Among Doctor Bowen's graduates are lawyers, doctors, executives and professional students, as well as thoughtful men and women in other fields.

Doctor Bowen was a practicing physician to whom it became evident that many of the ills for which medical advice is sought, stem from economic causes—not only among the poor, but also among those who must meet the ever-multiplying problems of men of affairs. And since it is the primary object of the medical profession to promote the elimination of causes rather than deal with effects, the author spent years investigating economic phenomena. The resulting discovery that economic mal-

adjustments are not only the cause of many of the problems confronting the physician, but of many of those larger problems now menacing the future of our nation, is responsible for this treatise.

George L. Rusby, who also edited the original manuscript for "Economics Simplified," is responsible for the further refinements and simplifications of the subject which appear in this second edition. His familiarity with the basic principles of Political Economy has been adequately demonstrated in this work and in his own writings, which have been widely read. His brochure, "Smaller Profits, Reduced Salaries and Lower Wages—The Condition, The Cause, The Cure," for instance, has been through numerous editions in English and by means of its many foreign translations has received world-wide circulation.

Few studies are as fascinating and rewarding as that of economics. It is confidently believed that the present contribution, "Economics Simplified," will be received with the appreciation it rightly deserves.

My friendship for Doctor Bowen and Mr. Rusby is of long standing. I am pleased and proud to sign, in behalf of the Robert Schalkenbach Foundation, this foreword to their valuable joint contribution.

Lawson Purdy

# **Economics Simplified**

by E. E. BOWEN, M.D.

CONTENTS

LESSON	PAGE
<p>I FACTORS IN THE PRODUCTION OF WEALTH AND DEFINITIONS OF TERMS . . . . .</p> <p style="padding-left: 2em;">The problem</p> <p style="padding-left: 2em;">Importance of definitions</p> <p style="padding-left: 2em;">Purpose of producing wealth—source of wealth</p> <p style="padding-left: 2em;">What is land—labor—wealth—capital</p> <p style="padding-left: 2em;">What is rent—wages—interest</p> <p style="padding-left: 2em;">Do wages come out of capital</p> <p style="padding-left: 4em;"><i>Questions for Discussion</i> . . . . .</p>	<p style="text-align: right;">I</p> <p style="text-align: right;">23</p>
<p>II DISTRIBUTION—THE LAWS OF RENT, WAGES AND INTEREST . . . . .</p> <p style="padding-left: 2em;">Difference between labor and personal service</p> <p style="padding-left: 2em;">Limiting wages, interest and rent by legisla- tion</p> <p style="padding-left: 2em;">The law of Rent</p> <p style="padding-left: 2em;">The law of Wages</p> <p style="padding-left: 2em;">The cause of Interest—what fixes its rate</p> <p style="padding-left: 4em;"><i>Questions for Discussion</i> . . . . .</p>	<p style="text-align: right;">25</p> <p style="text-align: right;">44</p>
<p>III ERRONEOUS THEORIES REGARDING CAUSE OF ECONOMIC DISTRESS . . . . .</p> <p style="padding-left: 2em;">“Spreading the work”</p> <p style="padding-left: 2em;">Is Labor dependent on Capital for employ- ment</p>	<p style="text-align: right;">46</p>

LESSON	PAGE
Result of having capital but no land—land but no capital	
Effect of withholding capital from use	
Do business failures occur because of wages paid to Labor	
Does Labor produce its own wages	
The Malthusian theory—its fallacy	
Population tables	
The "Have" vs. the "Have Not" nations	
<i>Questions for Discussion</i> . . . . .	62
 IV EFFECT OF INCREASED POPULATIONS, IMPROVED METHODS AND MACHINERY, ADVANCES IN THE ARTS AND SCIENCES, AND LAND SPECULATION . . . . .	64
Natural effect of Increased Population	
Natural effect of Advances in the Arts and Sciences and of Improved Methods and Machinery	
Effect of Land Speculation	
<i>Questions for Discussion</i> . . . . .	87
 V DEPRESSIONS AND THEIR CAUSE . . . . .	89
From early symptoms to final result	
History of Chicago Land Values	
Effect of pegging prices by government	
Effect of incurring debts through borrowing	
Responsibility of bankers	
Steps in recovery from depressions	
<i>Questions for Discussion</i> . . . . .	111



CONTENTS

ix

LESSON	PAGE
VI SUGGESTED REMEDIES . . . . .	113
Education, Improved Habits of Thrift and Industry	
Tariffs	
Labor Unions	
Abolishing Competition	
<i>Questions for Discussion</i> . . . . .	136
VII THE TRUE REMEDY . . . . .	138
Effect of concentrating land holdings	
Is private property in land necessary	
Would its abolition be a hardship—an injustice	
Compensation to land-owners	
<i>Questions for Discussion</i> . . . . .	159
VIII METHODS OF APPLYING THE REMEDY . . . . .	161
Should the process be gradual	
What determines selling values of land	
A natural fund for governmental expenses	
Principles of present taxation—"ability to pay," "benefits conferred," "need to buy"	
Appraising personal property—improvements on land—and land itself	
How equalize opportunities	
To the producer belongs the product	
One way of inaugurating the proposed change	
<i>Questions for Discussion</i> . . . . .	181

LESSON

PAGE

IX EFFECTS OF PROPOSED CHANGE . . . . . 183

    Effect on owners of homes and business sites,  
    and on other land owners

    Effect on farmers

    Effect on Labor

    Effect on government

*Questions for Discussion* . . . . . 201

X THE TRUE REMEDY VS. OTHER PROPOSED  
REMEDIES . . . . . 203

    Theories of Government

    Anarchism, Socialism, Communism

    "Planned Economies"

    Democracy vs. Planned Economy

    Equal Opportunity and Equal Freedom

    Functions of Government

    Liberty the Goal

*Questions for Discussion* . . . . . 216

CONCENTRATION OF LAND OWNERSHIP IN THE  
UNITED STATES . . . . . 218

INDEX . . . . . 224

*"We like to continue to believe what we have been accustomed to believe as true, and the resentments aroused when doubt is cast upon any of our assumptions lead us to seek every manner of excuse for clinging to them. The result is that most of our so-called reasoning consists in finding arguments for going on believing as we already do.*

*It should be our pride to revise our ideas and not to adhere to what passes for respectable opinion, for such opinion can frequently be shown not to be respectable at all."* JAMES

HARVEY ROBINSON.

LESSON

I

FACTORS IN THE PRODUCTION OF WEALTH  
AND  
DEFINITIONS OF TERMS

*"The beginning of wisdom is the definition of terms."*—  
SOCRATES.

*"How many a debate could have been deflated into a  
single paragraph if the disputants had dared to define  
their terms."*—ARISTOTLE.

"WE HOLD THESE TRUTHS TO BE SELF-EVIDENT, THAT all men . . . are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness"—so states our Declaration of Independence. Translating this into modern life, today we see Labor struggling to secure for itself surety of employment, a living wage and a voice in management. We find the business man struggling to keep his business from failure, to keep its income high enough to enable him to withdraw his living expenses from it, and to combat those regulations which take from him the control of his business.

Both the business man and his employee are striving to secure for themselves what the Declaration says is theirs. Are they succeeding? No! For as the years go by, the struggle becomes always more fierce instead of less

so; not because people are lacking in sympathy for their fellows, not because some wish to injure and oppress others, but because the average man, being unfamiliar with economic principles, does not recognize the forces which led him into his present condition, and therefore does not know what needs to be done to bring him out of it.

In every civilized country today we find distressed, unhappy, discontented people, hoping for a change in their economic condition, but unable to see clearly what change they want, or how it can be brought about. Even in nominally democratic countries, we see the growth of state policies of wage fixing and price fixing, of regulation and regimentation, and of other policies which not only interfere with the liberty of the individual, but which interfere also with the operation of natural laws, and it is this interference with natural laws which is responsible for the problems which confront society.

Today the general public is as poorly informed regarding economic laws and principles as were our forefathers regarding sanitation, a century or two ago. Then, when an epidemic swept over a city, they would ring bells, beat drums, start large bonfires, have religious parades, etc., and would imprison, torture and even kill anyone who might be accused of being a witch or of having "an evil eye"—all with the hope of curbing the epidemic. They were not disturbed at all, however, by the common custom of throwing sewage into the streets; nor by the rats, fleas, flies, lice and mosquitoes which swarmed everywhere, and often were spreading the very epidemic they were trying to combat.

These foolish methods which our forefathers employed to check epidemics were no more fantastic, no more use-

less, than are the methods employed today by our legislators and others in their efforts to remedy low wages, unemployment, business uncertainty, depressions and poverty. Our forefathers were working in the dark. Because they did not know the cause of the epidemics, they wasted their efforts on nonessentials and left the cause of the epidemics undisturbed. Today our leaders are working in the dark in their efforts to better social conditions. Because they do not know the cause of these conditions, their efforts likewise are wasted on nonessentials and the cause is left undisturbed.

We have made wonderful strides in the mechanical arts and sciences, but in the science of economics we have barely begun to creep. Instead of finding ourselves more nearly approaching a condition of liberty and plenty for everyone, as generation succeeds generation we find the general tendency to be in the opposite direction. We find employers as well as employees living in a state of constant fear. They fear their businesses may fail, or that they may lose their jobs; they fear they may not be able to meet the rent, or the interest, or the taxes; or that they may not be able to educate their children as they would like; or that they may become dependent in sickness or old age. Fear of some economic disaster lies constantly in the background of most minds. The fact that these problems become more acute shows that, in spite of all that is being done to solve them, their causes are not being removed. Until economic principles are understood, there can be nothing more than a blind groping for the cause of and the cure for economic distress.

It is sometimes contended that there are no underlying, fundamental economic principles; that our eco-

conomic policies must be changed to meet changing conditions. When an engineer has a new problem to solve, does he contend that the multiplication table must be changed to meet the new condition? No! Engineers know that if a bridge falls, it is because some mechanical principle has been violated and they seek to find the violation and to correct it. Though the fact is not generally recognized, economic principles are just as exact and as unchangeable as are those of mathematics and mechanics. Not realizing this, many believe that to hope to find an economic policy, the application of which will lead to plenty for everyone, under all conditions and without the destruction of the liberty of the individual, is only a vain Utopian dream.

But for every effect there must be a cause. If we will but search for it thoughtfully, with open minds, the cause of our economic troubles is not difficult to find. Since political economy (economics) is the science which treats of the nature of wealth and of the natural laws governing its production by and its distribution among men living in society, and since we wish to discover what it is that prevents the full enjoyment of Life, Liberty and the pursuit of Happiness—what it is that causes our economic problem—it is to the science of political economy we must turn.

If anyone doubts that the problem lies somewhere in the field of production and distribution of wealth, let him consider these figures published by the life insurance companies. Given 100 men at age 20, follow their history for 40 years; at age 60 we will find that 35 of these will be dead (X); of the remaining, one (W) will be wealthy; four (O) will be moderately well-to-do; five (V) will be poor but self-supporting; and the other 55

(D) will be dependent on others for their support. Certainly we cannot believe that 55 men (or 60, if we include those who are poor) out of 65 have been so lazy or so incompetent that in 40 years, if given a fair chance, they could not have produced and saved enough to give

x	x	x	x	x	x	d	d	d	d	d	d	d	d	d	v	w
x	x	x	x	x	x	d	d	d	d	d	d	d	d	d	v	o
x	x	x	x	x	x	d	d	d	d	d	d	d	d	d	v	o
x	x	x	x	x	x	d	d	d	d	d	d	d	d	d	v	o
x	x	x	x	x	x	d	d	d	d	d	d	d	d	d	v	o

No. 1

them a competency for their old age. Why then are they dependent on others? If this is not due to something inherent in the men themselves, it must be caused by something in the conditions in which the men have lived and worked. Both our national wealth and wealth *per capita* ever increase. Why then does poverty increase with progress and advancing wealth? This is the question we will answer in these lessons.

Since political economy is the science which treats of the production and distribution of wealth, it would

\*Sometimes it is contended that wages are now higher than in previous generations; therefore if the present generation finds it more difficult "to make ends meet" it must be the fault of the individual. But consider:

If a man produced 25 and his wages were 20, he received  $\frac{4}{5}$  of his product.

If his son produced 50 and his wages were 25, he received  $\frac{1}{2}$  of his product.

If his grandson produced 100 and his wages were 33 $\frac{1}{3}$ , he received  $\frac{1}{3}$  of his product.

If his great grandson produced 200 and his wages were 40, he received  $\frac{1}{5}$  of his product.



seem natural to expect this to be the most popular of all sciences, especially in times of economic distress when people are searching for a way out of their troubles. But the view expressed by Carlyle, that political economy is "the dismal science," is the view still held by the vast majority. Why should this be?

Probably the chief reason lies in the fact that in most books on political economy the terms used are not exact and self-limiting. It matters not by what term anything is called, though in a discussion the parties thereto must agree on a definition of any term used in order to know they are speaking of the same thing when that term is used. (It is equally important to have in mind exact definitions of the terms one uses in one's own thinking.)

If in the lumber business the term "board" sometimes meant a thin, broad, flat piece of lumber, but at other times it meant something like a barrel, or again something like a flight of stairs, any practical discussion of boards would be impossible. Yet this is the condition we find in most books on political economy. For instance: in one widely published book on the subject on one page the term "capital" is described as anything used by a capitalist; on another page as "anything owned by anyone which is used to exploit others"; still again, capital is "the means of production," and later, man's skill and abilities are said to be his capital and finally the author states that capital "is not a thing but a social relation between people." Is it any wonder that the study of economics is commonly thought to be confusing and beyond the comprehension of the average person? It is this lack of accurate definitions, and not any real complexity of the science itself, which leads men to think

of economics as "the dismal science." Actually the science is a very simple one.

In order to avoid any such confusion in these lessons, we will begin our study by defining and analyzing the seven principal terms around which the whole of political economy is built.\*

The story is told of a man who was shingling his roof in a fog so dense that he shingled six feet beyond the edge of the building without realizing it until the wind blew the fog away. If we would find the remedy for our economic ills, we must have something more than vague opinions about the subject, based on a lot of foggy ideas which can be dissipated easily by accurate reasoning. Therefore we will start at the beginning and build up, step by step, in order that each one may be able to judge for himself as to whether or not the foundations of the science are sound.

If there were so few people in the world that they did not come into contact with one another, there could be no political economy because there would be no society. Within the limits set by natural laws, each individual could do exactly as he pleased without infringing on the person or property of others because he would come into contact with no others. But there are two billion people in the world, and man is a gregarious animal. He not only likes to associate with his fellows, but he finds it to his material advantage to do so, since two

\*Should other definitions be preferred for any of the terms herein defined, this need not interfere with anyone following the argument presented and judging it on its merits, for in that case one could substitute "X," "Y," "Z," or any other symbol in place of the term to which one objects. The important thing is not insistence on any given term, but discussion of the idea or concept for which the term used is but the label or symbol.

men working together can produce more than can the same two men with the same amount of labor, each working alone.

Each individual has certain needs and desires. First, of course, he must have some measure of food, clothing and shelter. But even before these desires are fully satisfied, we find him reaching out for comforts, luxuries and beauty.

Where will people get the things with which to satisfy these desires? There is but one source. Every one of the tangible things men want has its beginning somewhere in nature around us. Since we wish to determine how everyone can satisfy his desires for material things, and since these material things all have their start in nature, in beginning the study of political economy we must divide the whole universe into two parts, with man and his desires on one side, and the whole of the universe, excepting man, on the other.

"The whole of the universe, excepting man" includes the air, land, water, natural forests, wild animals, mineral deposits, electrical forces, the weather, cosmic waves—in fact, everything which would exist unchanged if man had never existed or should cease to exist. The term "nature" could have been used in political economy to designate these things, but, in economic discussions it has become customary to refer to them as "land." Therefore, in political economy the term "land" does not mean, as in geography, only the dry surface of the earth, but includes all of the natural resources of the universe.

LAND, then, is all of the natural universe excepting man—all that would be here if man had never existed.

By the term "man," we do not mean simply a physical

body with whatever muscular strength it may have; we include also man's skills, intelligence, education, and abilities of all kinds. These things are all a part of man, and as incapable of acting separated from him as are his hands.

Here, then, is the great storehouse, land, containing everything of a material nature that man can want, and here is man with his desires and abilities. How is man to get the things he wants out of this storehouse? He must work—must apply his energies, both mental and physical, to the task. This application of human energy to land, or its products, to get these things, we call "labor," and the man who exerts the energy, "a laborer." Often there is a tendency to designate as laborers only those who do menial tasks, but mental energy exerted in producing objects men want is just as truly labor as is physical energy.

For instance: the president of a steel manufacturing company, in managing its affairs, is just as truly a laborer as is the man who digs ore from the ground. The company may not have more than one customer in a million who wants the iron ore in the condition in which it is taken from the ground. It is the duty of the president of the company to see that this ore is made into such things as are desired, and to get these things to its customers. The miner may use principally physical energy, and the president may use chiefly mental energy, but both are using their energies for the same purpose, both are working at the same job—to help satisfy human desires for things made of iron and steel. They are both laborers. So also are all of those helping them with this job: the superintendents of plants, the men at the blast furnaces, the office workers, the salesmen, the men on

the railroads carrying the ore to the mills and the finished products away, and all others who perform any share of the task. One cannot separate mental labor from physical labor, because every form of exertion in producing wealth requires both, though the percentages may vary from one extreme to the other.

To use another illustration: an architect has been commissioned to build a bridge. He may go to his office and sit for hours with his feet on the desk and his eyes closed, considering the forces with which he has to deal—measuring in his mind's eye the stress and pull and balance of each part against other parts. Finally he decides what he wants, down come his feet and he starts preparing his specifications and blueprints. He was helping in the construction of that bridge just as truly while he was preparing his drawings and blueprints as when he later superintended the construction work itself. His blueprinting was part of the whole, just like the work of the riveter in fastening the plates together. The bridge could not have been built without the work of either man.

But energy spent which does not produce an object having exchange value is not labor. None of the "daily dozens" which are performed each morning are labor; they are not human energy applied to Nature's storehouse, land, to produce tangible objects. If the architect had spent his hours dreaming of a bridge he would like to build, but which he never attempted to bring into existence, this mental energy of his, spent in dreaming, would not have been labor.

There is exerted much energy which satisfies human desires, not by producing tangible objects from land or its products, but by working on man himself. Much of

the work of doctors, lawyers, teachers, musicians, insurance men, and others, comes under this head. These people perform very useful personal service, but the energy they exert is not labor, for it produces no tangible object which men can exchange in the market place; therefore the work they do does not come within the scope of political economy, for this science treats solely of *the production and distribution of wealth*, not of its consumption.

LABOR, then, is human energy, mental and physical, applied to land or its products, to produce things (having exchange value) to satisfy human desires.

Suppose a man desires a desk. He goes first to the forest (which is land) and by his exertion (labor) cuts down a tree. The tree is cut into uprights and boards; these are planed, fastened together, and then the desk is transported to the place where it is to be used. But what is this desk really? Its form has been altered, its location changed, but still it is only a tree (a bit of land) which has been changed by human labor into something to satisfy a human desire.

Thus we see that when men apply their energies to land, they produce a distinct class of objects. These objects do not belong in the class of land, because they could not exist without man's help; nor are these objects labor (of course, no object could be that). These things have been produced by labor applied to land, and *if they have exchange value*, are called "wealth."

For not everything produced by human energy from land is wealth. Political economy is a science which deals with things, not in their relation to any one man, but with things in their relation to men living in society (Politico=relating to the body of individuals making

up the commonwealth). Objects produced for which other men have no desire would not be wealth. To illustrate: in a certain asylum lives a feeble-minded man who feels his mission in life is to make mud pies. Every day, if permitted, he spends hours at this task which he sets for himself. It is not a haphazard task with him. Sometimes it takes him hours to get what he wants—the earth may be added by pinches, the water by drops. When his pie is finished and left to ripen, is it of any value to anyone else? It is land to which human energy, both mental and physical, has been applied, but it satisfies no desires of other men. If, however, the earth used by this man had been clay, a potter could have taken the same clay, the same water, and, without using any more energy, could have made from them bowls, platters, and objects of pottery which other people would like to have. Men then would gladly exchange the things they produced for the things the potter made, and because of this, the pottery would be wealth, while the mud pies are not wealth.

This is a measuring rod by which we can tell whether or not any particular thing made by man belongs in the class of wealth. Does it have a selling value? Will anyone give anything in exchange for it?

WEALTH, then, is defined as “any material thing, having exchange value, which has been produced by labor applied to land or its products.”

There are many things often classed as wealth which at first may seem to be such but which careful thought will show to be not wealth at all—such as stocks, bonds, mortgages, notes and money. Take, for instance, a certificate for a share of stock, with a par value of \$100. In certain conditions this certificate may be sold for

\$100, but as wealth it is not worth even one cent. Its wealth value is no more than could be gotten for it if sold as old paper. When an individual buys a share of stock, what he really buys is a share in the ownership of some business. If the business has issued 1000 shares of stock to cover its assets, he who buys one of these shares is really buying a 1/1000th part of that business, and the certificate is but an evidence of his ownership. It may be burned, but its owner will own as much wealth as before (minus the value of the paper burned). While the certificate of stock may be an evidence of ownership of wealth, in itself it is not wealth. The same is true of bonds, mortgages, notes, and other evidences of ownership, all of which could be destroyed without the destruction of any of the wealth represented by them.

And much the same is true of money. Money is a tool which society has made for itself in order to make exchanges easier. To the extent of the actual market value of the paper, or of the metal, in the piece of money handled, it is wealth; beyond this, the value represented by that piece of money is only a credit value which reflects the faith its holder has in the soundness of the government which issued the money. A Confederate bill, for instance, may have some value as an antique, but as money it has no value at all because the government which issued it has disappeared. Or, take a bank note: if it has been printed as a \$1.00 bill, it can be exchanged for \$1.00's worth of wealth; if it has been printed as a \$10,000.00 bill, it can be exchanged for \$10,000.00's worth of wealth; but its own actual wealth value—the value of the paper in the bill—will be the same in either case.

In order for an object to be wealth, its production



must have added to the total store of wealth as its destruction would lessen the total store.

The basic factors in economics have now been clearly outlined, and everything with which the science has to deal falls within the scope of one or another of these three:

- LAND—The whole universe excepting man and what man makes therefrom which has exchange value;  
LABOR—Human energy, mental and physical, applied to land or its products, to produce material things having exchange value;  
WEALTH—Any material thing, produced by labor, from land or its products, that has exchange value.

These three are very distinct; each excludes the other two. Land never can be man, nor man's energy—labor; nor can it be wealth (which is produced from land). Labor can be neither land nor wealth. Nor can objects properly classed as wealth be either land alone or labor alone—wealth is always the result of labor applied to land or its products.

These distinctions between land, labor and wealth seem so simple and so understandable that one would suppose there never could be any question regarding them; but actually most of our economic troubles are due to the fact that the average man does not understand these distinctions nor do most of our lawmakers and economists. So long as slaves were thought of as wealth instead of as men, there was little chance of abolishing chattel slavery. We might say that the Civil War was caused, indirectly, by incorrect definitions, and the same is true of our economic problems of today.

The next term to be considered, "capital," is another

regarding which there is much misunderstanding. What is capital and what is its function?

Primitive man went to land and got wealth for his own consumption, such as nuts, fruits, seeds, fish and roots. He lived, though his condition was not much above that of the other animals. But when he learned to make tools, such as baskets to carry food back to his home, nets to catch fish, or a sharpened stick for digging the ground—by using these tools he could produce much more wealth with the same labor than he could without them, and so raise his standard of living. These tools were wealth, as were the berries, nuts, fish, etc., when gathered, but after making these tools he did not wear them for clothing, nor burn them for firewood. He saved them to help him produce other wealth on the morrow. Wealth which is thus saved, and then used in producing other wealth, is capital. All tools are capital, as is any wealth, in any form, while being used to aid in production.

To illustrate: a farmer has an orchard which he has planted and raised. This orchard is wealth; but the farmer keeps the trees in condition by pruning, the saws and other tools used being capital. After the fruit is gathered, the farmer and his family may eat a part of it at once, and may store some for future consumption; but some of the crop may be used by the farmer in getting other products which he and his family desire, this part being sold in the market. If he makes cider from a part of his fruit to satisfy a demand for cider, he thereby produces other wealth (as manufacturers produce wealth by changing the form of the goods going through their factories). If he exchanges some fruit with a neighbor for potatoes, he gets, in this way, wealth

which he himself did not produce. By exchange he has gotten potatoes for himself instead of apples. Some of the fruit he may take to market. He is still producing wealth simply by moving it from the orchard to the market, because it then is nearer to the point where it will satisfy the desires of other men (as the transportation of coffee from Brazil and tea from China increases production). Manufacture, exchange and transportation are all part of production. Production is the process of so changing the form, location or condition of something that comes from the land (and has exchange value), as to satisfy, or better satisfy, human desire.

Botanically the apple is fully produced when it is ripe; but from an economic point of view, the apple is not fully produced until it is in the hand of the person who is to eat it. The purpose of raising the apple is to satisfy a human desire for an apple, and every process which moves it toward the point where it will satisfy this desire is a part of economic production.

When the apple is delivered to the jobber, it is one step nearer its goal, as again it will be on reaching the retailer. At each step it is in process of being "produced" until it reaches the hand of the final consumer, to whom all wealth tends to gravitate.

By keeping in mind that wealth is capital only when it is being used to produce other wealth, it is not difficult to distinguish between wealth which is capital and wealth which is not capital. Land cannot be capital because it is never wealth; therefore the ownership of land does not make its owner a capitalist. Human skills, education, etc., cannot be capital, for they are never wealth—they are a part of man. Nothing can be capital that is not first wealth, and nothing can be capital

that is not being used by Labor to aid in production.

As before stated, there *can* be production without capital; there *must* have been production without it, else capital could not have appeared in the first place; but human life without the use of capital would be extremely crude. Civilization, as we know it, could not exist. Probably civilization began when two primitive men overcame their fear of each other sufficiently to come together to exchange what they had produced. Our enormous possibilities of wealth production today are due to the fact that such a great percentage of the wealth produced is not consumed immediately, but is saved to be used as capital.

But, in spite of its inestimable value to Labor in producing wealth, capital is always a secondary factor in production, because production can take place without it (which is not true of either land or labor). Capital can be effective only when it is used by Labor. There may be wealth valued at millions which its owners wish to have used as capital, but if Labor cannot, or will not, use this wealth it can only decompose. We see this plainly when a strike occurs—when Labor steps out the wheels stop turning. Labor is always the initiatory factor in production; it is always Labor which uses capital. Capital never uses labor. A farmer may have a threshing machine, or a business man a factory, but neither serves its purpose until it is used. If a man uses his own capital he must do it as a laborer (he is then both a capitalist and a laborer); if he hires it to someone else, the borrower must become a laborer to use the capital. The only function of capital is that of aiding labor in production.

Our great economic problem of today is to discover

why, in spite of our increasing ability to produce enormously, the making of a living for most of our people becomes more and more difficult, instead of less so. Many believe the answer to this problem lies somewhere in the relation between Capital and Labor. They believe that wages are paid out of capital, and that the rate of wages depends on the relation between the amount of capital available, and the number of laborers employed. But if this were so and if wages were paid out of capital, it would be logical to expect wages to be high when capital is abundant and low when capital is scarce. The extremely high wages made by the gold miners in the early days of California show us that the reverse can be true. During a depression we often see idle factories and dormant industries on every hand, yet Labor cannot find productive work at any wage.

The truth is that wages are not drawn from capital at all. The wages of the aborigine, gathering berries and seeds and eating them as he picks them, cannot be drawn from capital because he has no capital. Later, one of these men finds some stones and makes of them a crude mill with which he grinds his seeds into flour. In the morning he gathers seeds, in the afternoon he grinds them. His wages at the end of the day will be the flour he has that day produced; these wages did not come out of his capital, for his grinding stones are still intact to use another day.

But, it sometimes is contended, illustrations drawn from primitive times do not apply to our complex economic system of today. Instead, then, of the aborigine with his grinding stones, let us consider a great flour mill. Here is capital in one of its most complex forms. Is capital needed, or used, here to pay wages?

The capital in this mill at the beginning of any day consists of the buildings, all machinery and tools used in making flour, office fixtures, etc. (also, cash or money in the bank, which, though not itself capital can be exchanged for capital at will). If an inventory is taken in the morning, the wealth in this mill will consist of unground grain.

Now the men come to work and all day grain is ground, bolted and bagged. Let us suppose, in order to keep the illustration as simple as possible, that nothing is taken into the mill or out of it during the day. If another inventory is taken in the evening, after the mill has been running all day, will not wealth be found to have been produced there, by Labor, during the day? Instead of tons of unground grain there will be tons of flour ready for shipment—wealth more nearly prepared for the consumer, this being a step in wealth production (see "Production," p. 24). This difference will have been produced that day by the labor of the workers. If each worker is paid at the end of the day out of the flour he has that day produced, will the owners of the mill have any less capital at the end of the day than at the beginning? Or will the wages of the men in the mill have been dependent on the relation between the number of workers and the amount of capital owned by the proprietors? Another milling company may be working "on a shoe-string," but the men there will be paid the same wages as are the workers in the mill with vast amounts of capital at its disposal. The wages in both mills are produced each day by the men as they work. And this is true in every business—Labor *always* produces its own wages as it works.

It is probable that in the flour mill the wages will be

paid in money and not in flour. This is done only because it is more convenient for everyone. But the amount paid in wages will not exceed the value of the flour which each man has produced by his labor during the day. When the proprietor pays his men in money instead of in flour, he is really buying from them the flour, which is their real wages. Our industrial system has been built up around the custom of having the employer earn a part of his wages by selling what has been produced in his plant. If the owner of the mill sells some carloads of flour, he must accumulate this flour before he can deliver it. If he pays his men in money instead of in flour, he can more quickly accumulate the flour he needs for his customers; but whether he pays his men in money or in flour, his capital, in either case, is not decreased by the payment of wages.

If each laborer, then, produces his wages as he works, wages cannot be diminished by any increase in the number of laborers. Quite the contrary. Since the greater the number of laborers, the greater their efficiency, if their work is well co-ordinated, it follows that the greater the number of laborers, the higher their wages should be. It is true that today it does not work out this way in actual experience—in later lessons we will show why. But the reason for any decrease in wages as the number of workers increases is not, and cannot be, because wages are drawn from capital.

Land, labor and capital—these three are necessary for the production of wealth in any but the most primitive society. There must be land before labor can be exerted. Labor must be exerted before wealth can be produced. Wealth must be produced before a part of it can be saved to use as capital. And in order for this capital to be

of any service in the production of wealth, Labor must use it (to be precise, wealth is capital *only when actually in production*; "idle capital" is impossible).

What becomes of wealth after it has been produced? It passes to the consumer through the natural channels corresponding to the factors in production. That part which is received for permission to use the land used in producing the wealth, we term "rent" (if land is used in *consumption*, or is held idle, its rental value, though this should be treated in the same way as rent, is not true rent). We speak of "renting" a house or an automobile. What we really mean is "hire." True rent\* is never received for permission to use anything made by man.

That part of wealth received for labor performed we call "wages"; and since labor consists of both physical and mental energy exerted in the production of wealth, wages are the wealth received by anyone for work which has resulted in the production of wealth. This may be called a salary, a commission, a bonus, a profit or something else. It matters not what it may be called in commerce; in political economy wages are anything received for human energy expended in producing wealth.

The return received by the capitalist for the hire of his capital is interest. Much of what is commercially

\*The reason why anything commands price is that the demand for that thing exceeds the supply that can be gotten for nothing. Rent is the price paid for occupancy of land of a certain kind: therefore, the cause of rent is that the demand for a given kind of land exceeds the supply that can be gotten for nothing.

As stated above and on p. 165n, the site value of land held idle or of land used in consumption cannot be economic rent. Rent is one of the portions into which product is divided: if there is no product (which is the case when land is idle or used in consumption), there can be nothing to divide and therefore there can be no rent.



called interest is not true interest at all. It may be a payment for the replacement of capital, for insurance against risk, for obsolescence, or for something else, but these payments are distinct from true economic interest. Interest is only that which is received for the loan of capital. Money hire is not true economic interest. A man may borrow money with which to buy bare land, then speak of paying "interest" on the mortgage he gives. It is not economic interest that he pays, for it is not a payment for the loan of capital; it is payment for permission to use land, and, therefore, is rent (if the land is used in producing wealth, see p. 21).

All through the business world we find many things which are misnamed from an economic point of view; but if the economic definitions are kept clearly in mind, confusion will be avoided. In economics, rent is a return for permission to use that which has *not* been made by man but which is used in production. Interest is a return for the loan of things which *have* been made by man and which are used in production. Wages are the return man receives for the energies he exerts in production.

These seven terms: land, labor, wealth, capital, rent, wages and interest, are the foundation upon which the whole of political economy is built.

But what of "profits"? is this not an economic term? Do not profits as such take a part of the wealth produced? No. By "profits," business men mean an excess over cost, and this excess will consist of rent, wages or interest, or some combination of any two or all three of these. For instance: if a piece of land has been rented on a long term lease, and, during the term of the lease, increases in value so that it can be, and is, sublet at a higher rate, the profit is all rent. The profits of a business man

may be all wages. The profit on capital borrowed at 2% and reloaned at 3% is all interest.

"Management" is not a separate factor in production; if the manager exerts energy in producing wealth, he "labors," and what he receives is wages.

**ECONOMIC AXIOM AND DEFINITIONS**

From <b>LAND</b> does <b>LABOR</b> using <b>CAPITAL</b>	} produce } <b>WEALTH;</b> } which, when produced, } is distributed* as	{ <b>RENT,</b> { <b>WAGES</b> { and { <b>INTEREST</b>
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**POLITICAL ECONOMY**—The science of the nature, production and distribution of wealth.

**LAND**—The whole universe except man and the things produced by man that have exchange value.

**LABOR**—Human energy, however much it be physical, however much mental, exerted in producing wealth.

**WEALTH**—Any material thing produced by man from land or its products that has exchange value.

**CAPITAL**—Wealth, by the use of which labor is being applied to other wealth, or to land, in the production of wealth.

**RENT**—The landowner's share\* of wealth for granting access to land from which, or on which, wealth is produced (whether or not the community be owner).

**WAGES**—The laborer's share\* of wealth for labor performed.

**INTEREST**—The capital owner's share\* of wealth for per-

\*If the laborer uses his own land, then, being both landlord and laborer, he receives both rent and wages; if he owns the capital used, but not the land, being laborer and capitalist, he receives both wages and interest; if he owns both land and capital, being laborer, landlord and capitalist, he receives all the three—rent, wages and interest. When no capital is used nor land above the "margin," there is neither interest nor rent.

mission to use (i.e., for lending) the wealth used (as capital) in producing it.

**PRODUCTION**—The making, growing, transporting, exchanging, or otherwise modifying by human exertion, of any material object (other than man himself) having exchange value, whereby it is fitted for, or better fitted for, or is brought nearer to the final consumer.

**DISTRIBUTION**—The apportionment, by natural law, of product (wealth) among the factors in its production.

**CONSUMPTION**—The use one makes of wealth after its production, which use lessens, however slightly, its capacity to satisfy desire.

**PERSONAL SERVICE**—Something done that satisfies another's desire (whether or not for a material thing) but that does not produce wealth.

### QUESTIONS FOR DISCUSSION

- 1—Under what heading, in economics, would one classify the ocean? Fish in the ocean? A waterfall—natural and artificial? Rain? A harbor—the channel and the docks?
- 2—How should a factory be classified? A store occupying the whole building and one with living quarters over it? An apartment house? A railroad station? A subway? A home?
- 3—Are any of the following capital: An untapped oil field? An oil well? A pipeline carrying oil from the field to the refinery? Oil going through the refinery? Gasoline for sale at a garage? Gasoline in one's car? If any of these is not capital, what is it and why?
- 4—In which class should one place a farmer? Is he a landlord, a capitalist, or a laborer?
- 5—If a man owned, and himself operated, a milk route would he be a landlord, a capitalist or a laborer? If he owned, and himself operated, a company supplying water to a town, what would be his status?

## LESSON

### II

#### DISTRIBUTION THE LAWS OF RENT, WAGES AND INTEREST

*"Most writers pay too exclusive an attention to the production of wealth and neglect the laws of distribution."*—BUCKLE in "History of Civilization."

WHAT IS IT THAT ACTUATES OUR EFFORTS? ALWAYS we are trying to satisfy our desires. Every conscious move man makes has this for its purpose. To satisfy our desires for material things, three steps are necessary: 1—wealth must be produced; 2—it must be distributed, and then, 3—consumed.

With consumption (the use one makes of wealth after receiving it, which use lessens its capacity to satisfy one's desires), political economy has nothing to do; but it may be well to answer here a question which often arises. In our last lesson reference was made to the many people in society, such as doctors, lawyers, teachers, musicians, etc., who do not produce wealth, but who serve by giving personal service—by helping us satisfy our desires for other than material things (or material things that have no exchange value and therefore do not come within the scope of economics). Are these people parasites? No, by no means. The only ones in society who are

parasites are those who consume without giving a commensurate return for what they consume.

Few of us would be content merely to have satisfied our desires for material things. Most of mankind is reaching out constantly for those other satisfactions which are often referred to as "the higher things of life." Since no individual has the time, or the energy, or the ability to do, or to make, or to discover everything needed to satisfy his own desires, he employs others to help him to satisfy his desires for those things he cannot do, or make, or investigate for himself.

The musician helps us satisfy our desire for beauty of sound; the teacher helps us satisfy our desire for knowledge; the lawyer, our desire for equity and justice; the doctor, our desire for health; the insurance man, our desire for security, and so on.

Would anyone contend that beauty, knowledge, equity, justice, a sense of health, or security are useless things? Far from it. It is satisfactions such as these that make life worth living. To secure as many of these satisfactions as possible is the chief reason why most people strive to get wealth. If these desires are normal and healthy, then those who help us satisfy them cannot be performing useless tasks. They cannot be parasites because they do give a commensurate return for what they receive. ("Personal Service," defined p. 24.)

The fact that these occupations do not come within the province of political economy does not make them of any less importance; they simply belong in another field (consumption). The laws of physics and chemistry are not a part of political economy, but the men who search out and acquaint us with these laws are not useless members of society—nor are they who give personal service

of any kind. The higher the degree of civilization, the greater will be the portion of the population which is employed to give purely personal service.

There is a class of people in society who can truly be called social parasites, because they do take from others without giving anything in return. This class will be discussed in later lessons.

But to return to political economy. We have seen that there must be land before labor can be exerted; labor must be exerted on the land before wealth can be produced; wealth must be produced before a part of it can be saved to use (as capital) in producing other wealth. When and as wealth is produced, it is distributed among the factors which aid in its production. By "distribution of wealth," we mean assignment of ownership. The laws of distribution are those which determine who properly can claim title to the things produced; they indicate what it is that determines how large a portion of the wealth produced shall go as rent, how much as wages, and how much as interest.

Many have a vague idea that the land-owner can compel his tenant to pay any price he may set for the use of his land; that Labor can fix its own wages, and that the capitalist sets the interest rate he will accept. Second thought will show that none of these can be true, for each group would quite willingly take 100% of the wealth produced if it could. The truth is that the portion each receives is fixed by a natural law, over which man has no control.

Sometimes Labor feels it is being exploited by Capital, and sometimes Capital feels that Labor is getting an unfair share of the product. Then the class which feels abused, if it be strong enough, may get laws passed fix-

ing maximum or minimum interest or wage rates. But of what effect are such laws? For a little while, and to a slight extent, they may affect the condition it was hoped they would improve, but that is all. If the legal rate of interest or wages does not correspond to the natural rate for that time, place and condition, the legal rate will be ignored or evaded by premiums, discounts, bonuses or in some other way.

For instance: the legal rate of commercial interest in New Jersey is 6%. In 1940, the savings banks were paying 1% or less, and the government itself was borrowing huge sums for brief periods without paying any interest at all. Yet in 1928, those who wished to borrow often needed to pay a bonus of 10% or more in order to get a loan. This means that in conditions such as existed in 1940, 6% was too high, while in conditions such as existed in 1928, 6% was too low; and the natural rate tends to prevail in spite of human laws to the contrary.

Minimum wage laws will be similarly evaded. If they are not, they will cause unemployment and suffering among the very people they are intended to benefit. If the minimum wage rate is fixed higher than the natural rate for any given time, or place, or kind of work, the result will be that those who cannot produce enough to justify the payment of this wage will not be employed at all; or, if they are employed, prices must be increased to such an amount as will cover these wages. But when prices are increased, consumption is decreased. Decreased consumption inevitably leads to decreased production, which means decreased employment, and of course the poorer workers will be the first ones dropped. If the business man cannot raise his price, yet must pay a higher wage, he will fail, if he be in a competitive field,

and his men will find themselves out of jobs. There is no way to prevent an enforcement of a minimum wage law from causing unemployment of the poorer workers if its wage rate is higher than the natural rate would be.

If legal interest or wage rates are too low, they may be evaded by Capital or Labor (whichever happens to be the "underdog" at the time) moving out of the district or refusing to function. Or, if these rates are too high, then Capital or Labor will come into the district from outside, and by competition tend to bring interest, or wages, back to where natural laws would set them.

Generally, though mistakenly, land is regarded as either wealth or capital; therefore seldom are laws passed attempting to regulate economic rent, but if such laws were passed, they also would be evaded. Human laws cannot regulate these things; efforts to make them do so only make conditions worse.

Of course, it is not contended that wages should be no higher than they are now. Wages of both employers and employees should be immensely greater than now; but we cannot increase wages by laws passed for that purpose. Wages can be increased only by removing the artificial cause which keeps them low; and when this is done, the natural law of wages will keep them high.

We can make natural laws work for us if we understand them and make our statutes conform to them, but any attempt to prevent their operation must end in failure. It is as though a man, wishing to change the course of a stream, were to lie upon its bank and try to blow it in the direction he wants it to go. He could turn a few drops for a short distance, but others would immediately take their place; even the drops he turned would start downhill again immediately, and the great



body of the stream would go on as though he did not exist.

Human laws attempting to regulate rent, wages or interest are just as ineffective as this man's attempt to change the course of the stream. Gravitation pulls water downhill in spite of man's efforts to restrain it, and the natural laws of distribution work just as surely in determining how much of the wealth produced shall go to each of the factors which aid in its production.

One of the well recognized natural laws governing the physical world is this: "Motion seeks the line of least resistance." This same law governs also the acts of men, for always "Men seek to gratify their desires with the least possible exertion." Once this truth is recognized, the laws of distribution become axiomatic. Though the average person does not suspect the existence of these laws, it is not difficult to demonstrate what they are and how they operate.

Though usually capital is necessary for the production of wealth in our modern world, it is sometimes possible for Labor to produce wealth from land without using capital; therefore, the laws which determine what portion of the wealth produced shall go as rent and what portion shall go as wages must correlate with each other and form a perfect whole of themselves without any reference to the law governing interest, else these laws will not fit those exceptional cases where no capital is used in production.

Therefore, we will study first the Law of Rent and the Law of Wages and demonstrate by diagrams how the former determines what the land-owner can get from his tenant, and the latter what the laborer can get in return for his labor.

The land of every country varies in productivity. Some agricultural lands will yield large crops, others but small crops; some mines are very rich, others very poor; much more business can be done in the center of a large city than in a small town, etc. Let diagram 2 represent the

100	75	50	25
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No. 2

land of this, or any, country divided into different grades. On the best land, labor of a given efficiency can produce 100 (bushels of wheat, tons of steel rails, bales of cotton, suits of clothes, or any other kind of wealth), while labor of the same efficiency, working the same length of time, can produce but 75 from the second grade land, and 50 and 25 respectively from the third and fourth grades. (For simplification, in this diagram the land of each grade is grouped all together, though actually, of course, each grade is found widely scattered, and the different grades shade gradually into each other, instead of being sharply defined, as here shown.)

The first comers, A and his colony, will settle on the best grade of land, where they can satisfy their desires with the least exertion. No one needs to buy the land he takes, nor does he need to rent it, and, whether it be possible to produce much or little, each can keep for himself all he produces—wages are 100.

Now other settlers come with B. They also want, and take up, some of the best land (as in diagram 3). Can any of the people of A's colony sell or rent any land to the people of B's colony? Certainly not. Even if this land be fabulously productive, no one will give even one cent an acre for any of it, so long as he can get what he wants

of it free of charge. It may be that someone will wish to save the time and energy necessary to clear land and build a cabin, and so will purchase a home site from someone in A's colony who has already done this work.

Wages	100				
	A	100	75	50	25
	B				
Rent	0				

No. 3

All that will be purchased in this case, however, will be these improvements; no one will pay anything for land itself, when equally good land can be had free. Land can neither be sold nor rented until the holding of a particular spot will confer an advantage of some kind which cannot be obtained from other land to be gotten free. Therefore the rent of this 100 land is 0 so long as any of it is to be had free of charge. (The same law applies to all kinds of land, regardless of time, place or condition. If today one wished to go into business, one would pay nothing for any site, however well situated it might be, if he could get another site, equally good, without cost.)

What will wages be in this condition? If a man works his own land, he has no rent to pay and can keep for himself all he produces, which is 100. If he hires someone to work for him, he will find that he cannot compel another to work for him for less than that other can get working for himself—100. All wages will be 100; not only the wages of the man who works for himself, but also the wages of the men who work for others. No employer or group of employers can enforce a lower rate. In primitive

days people often exchanged work with each other—help with plowing would be exchanged for help with reaping; a woman invited to a quilting bee would invite her hostess to an applebutter bee, etc. This exchange of work was equivalent to paying 100 in wages.

Now other colonists come with C and D. C with his colony arrives first and takes up all the remaining 100 land. What will D's colony do when it arrives? These people also would like to have the best land, but there is no more of it free. There are five courses open to them from which to choose.

First: They may bring guns, battleships and other means of warfare and drive away some of those now on the 100 land to make room for themselves. Not that this would better conditions, because those driven off the 100 land would need to solve the same problem which had faced those who drove them off; but, if one analyzes the causes behind wars, one finds that practically every war can be traced, directly or indirectly, to a desire for land.

But we will suppose that D and his people are peaceable folk who will try to adjust themselves to conditions as they exist. A second choice, and probably the one most of the colonists will make, is to settle on the second grade land which is still free to them but where their labor will produce less. Here they need pay no rent and can keep for themselves all they produce, which is 75 (as in diagram 4).

A third choice: some may wish to live on the 100 land (they may wish to be near relatives, or by the seashore where they can be fishermen, or by a waterfall where power is available). Yesterday this land had no rental value, but now men will offer to pay for its use since it

can be had in no other way. How much can they be charged as rent? The land is no more productive than it was yesterday, but now it does offer an advantage over land which can be gotten free—labor can produce more from it; and the value of this advantage will be the difference between what can be produced from this land

Wages	75	75					
	A	100	C	D	75	50	25
Rent		25		0			

No. 4

(100) and what the same labor can produce from the best free land (75), which is 25. Therefore 25 can be charged as rent—no more. The land-owner does not fix this rent, nor does his tenant; it is fixed by a natural law. This Law of Rent, as old as man, was formulated by Ricardo in 1815 thus: "*The rent of any given piece of land equals the excess of its productivity over what the same labor can produce from the least productive land in use.*" Rent is what is paid for an opportunity to work on more productive lands.

A fourth choice open to D's colonists is to buy some of the best grade land. What will be its purchase price? Yesterday this land had no selling value, but now that there is no more of it free, now that its use offers an advantage over that offered by the best free land, now that it has a renting price, it can be sold; and its selling price will be determined by how much rent it will bring its owner (or by what the owner hopes it will bring him in the future). If there are no taxes, when the rental value

of land is 25 the selling value will be such an amount as will yield 25 to its owner at the prevailing rate of interest. If this be 5%, then the sale price of the best grade land will be 500; since 500, invested at 5% will yield 25.

The fifth choice: if some of those who came with D do not care for agriculture, and do not have the capital or the inclination to start in some other business for themselves, they may decide to get their living by working for others. What wages can they charge? On the second grade land they can get but 75, but workers on the 100 land have been getting 100 in wages, and D's people, rather than work for themselves for 75, will gladly offer to work for 95 in order to get these better paying jobs on the 100 land. The employers of course will be glad to pay 95 instead of 100 if the men will do as much and as good work as their present workmen. The displaced men can take up some of the still free 75 land if they wish, but naturally, instead, will offer to work for enough less than 95 to get their old or similar jobs. Thus men competing with one another for jobs will bring all wages down—down to 75; but below this, basic wages cannot be driven, because here is free land to which men can go, where they can make 75 working for themselves, and no one, unless enslaved, can be forced to work for another for less than he can make working for himself on the best land free to him. The men working on the best land must agree to accept a wage of 75, else the employers will hire men from the 75 land who are looking for jobs. When 75 is the productivity of the best free land, it will be, also, the basic wage on all grades of land in use. (Of course, he who performs his work more efficiently than those men earning the basic wage can command a proportionately higher wage.)

Thus, wages, like rent, are fixed by a natural law. This Law of Wages was formulated in 1879 by Henry George: "*Basic wages are determined by the productivity of the best free land,*" or, stated in another way: "No man can successfully demand from his employer more than he can make working for himself on the best land free to him."

So far as wages are concerned, it will make no difference to those in D's colony whether they take up the second grade land, where their labor will produce 75; whether they work for another, in which case their wages will be 75; whether they rent some of the 100 land, paying 25 for the privilege and keeping 75 for themselves; or whether they buy some of the 100 land for a purchase price sufficient to yield a return of 25, leaving their own net income 75. The Laws of Rent and Wages will fix their return in any case.

To carry the illustration further: suppose a lumber mill which would employ 200 men were to be built on a stream running through the 100 land. The wages in this mill must be 75, so long as the 75 land is still the best free land. Regardless of how large the mill, or how greedy its owner might be, basic wages could not be forced below 75. If the attempt were made, men would leave the mill and take up the 75 land for themselves. And regardless of how numerous the employees, or how greedy they might be, basic wages could not be forced above 75 so long as there was no free land better than the 75. Any attempt to raise wages above 75 would be an invitation to others to rush in to get these jobs paying more than the average wage, and by bidding against one another, in time, they would force wages back to 75.

Suppose the land taken by A's colony should prove to

be over an oil field where the same labor could produce five times as much as before the oil was discovered, would wages rise in the oil field? No. Wages would be the same, 75, that a man could make on the best land free to him; the change would be in the rent (as in diagram 5), which would increase to 425, with, of course, a corresponding increase in the selling price of the land. This is verified by conditions in oil fields everywhere. Wages there are no higher than for the same work elsewhere; but the price of land, both to rent and to buy, has risen enormously.

Wages	75	75	75		
	A	B	C	D	
	500	100	75	50	25
Rent	425	25	0		

No. 5

Or, suppose the land were used mostly for agriculture and a drought of many years' duration should occur. This probably would reduce the productivity of the poorer lands more than it would the productivity of the better grade. In this condition, labor of a given efficiency might produce 90 from the better land, but only 50 from

Wages	50	50	
	90	50	
Rent	40	0	

No. 6

the second grade land, instead of 75 as formerly. Though the drought might be a calamity to the community as a whole, with wages reduced to 50 (as in diagram 6), the



owner of the better grade land would profit by the calamity, because the rent of his land would rise from 25 to 40. When the rains came again and the former productivity returned, the rent of the better land would drop to 25, its old level, and wages would return to 75.

Now suppose other colonists came, took up all the remaining 75 land and overflowed into the 50 grade; the rent of the 75 land, which before was 0, would rise to 25, and basic wages drop to 50. As this process continued and it became necessary to use the 25 land, basic wages on all grades of land would drop to 25 and rents would rise correspondingly (as in No. 7).

Wages	25	25	25	25
	100	75	50	25
Rent	75	50	25	0

No. 7

These simple illustrations show that the rent of any given piece of land is not determined by its productivity alone, but by how much more Labor can produce from it than from the poorest land in use. In the drought illustration above, rent increased, though productivity declined. Similarly, wages are not determined by what Labor can produce from any given land, but rather by how much rent must be subtracted from the product. In most of these illustrations the product from each grade of land remained the same, but wages decreased and rents increased as poorer land was brought into use.

As it is sometimes stated: wages and rent are determined by the position of "the rent line," which divides all the wealth produced into two parts. All of the product

on one side of this line will go as rent; all on the other side, as wages. When rent is relatively low, wages must be relatively high; when rent is relatively high, wages must be relatively low.

$$\frac{\text{Product}}{\text{rent} \mid \text{wages}}$$

The laws of rent and wages supplement each other perfectly. Where one stops the other begins. Each is but the other part of the same thing. The rent of any given piece of land is fixed by the excess of its productivity over that of *the poorest land in use*. Basic wages are determined by the productivity of *the best free land*. It is just a case of a thing being equal to the sum of its parts. One part of the whole (product) goes as rent, the other as wages. Obviously, what falls on one side of the line cannot fall on the other.

That wages depend on the productivity of the best free land has been noted by many. In 1751, Benjamin Franklin wrote:

“Notwithstanding the increase in population, so vast is the territory of North America, that it will require many ages to settle it fully; and until it is settled fully, labor will never be cheap here, where no man continues long a laborer for another, but gets a plantation of his own; no man continues long a journeyman at a trade, but goes among these new settlers and sets up for himself.”

An illustration showing the application of this same principle elsewhere, is that of the Swan River settlement in West Australia. About 1800, a certain Mr. Peel took to West Australia for colonization purposes 3,000 people “of the working class,” and seeds, implements and cattle

valued at £50,000. When the ships arrived at their destination, the people immediately scattered and took up land for themselves and Mr. Peel "was left without even a servant to make his bed or to fetch him water from the river." Learning from this experience of Mr. Peel's, Edward G. Wakefield worked out a plan of colonization intended to prevent what was viewed as a calamity in the Peel case. He said: "Let the government put upon the virgin soil an artificial price, independent of the law of supply and demand, that compels the immigrant to work for a long time for wages before he can turn himself into an independent peasant. In this way the supply of cheap and subservient labor can be maintained." It was the adoption of this Wakefield plan for West Australia and other colonies, which diverted a large stream of immigration to the United States, where land was free and wages relatively high.

But if wages are fixed by the productivity of the best free land, the question arises: "what will fix wages when free land is no longer available?" Labor then has no point at which it can stand and successfully say it will not accept less. Wages then will be fixed by what the average man is willing to live on and reproduce; and competition among men, bidding against one another for jobs, which they must have in order to live, will cause wages to decline surely, however slowly, to the point of bare subsistence.

Now, what is the law governing interest, and how does it accord with the Laws of Rent and Wages?

In order to consider interest intelligently we must always distinguish with certainty between what is and what is not capital. Land is never capital though it is often mistakenly regarded as such. Man's abilities and

skills are not capital, though sometimes they, also, are so called. Stocks, bonds, mortgages, notes, and things of this kind are not capital, though when the money invested in them has been exchanged for wealth used in productive work, they will represent ownership of capital. Money is not capital; it is but a certificate which can be exchanged for capital. Nor should capital be confused with "capitalization." One might own a toll bridge costing \$1,000 with a monopoly privilege that would yield the owner \$20,000 a year. He could "capitalize" the business for \$400,000, and 5% annual dividends could be earned. But total *capital* is only \$1,000; to be even that much the bridge must be used solely for production.

True capital is but one thing—that part of wealth being used by Labor to produce other wealth. If everyone consumed all of the wealth he received as fast as he received it there never could be any capital. Wealth to be used as capital can be accumulated only by some saving a part of the wealth they receive. The chief reason men have for saving wealth is that they may have it to use at some future time.

Usually there are many who would like to have more wealth to use as capital than they have the ability, inclination, time or opportunity to save for themselves. Those who want capital are *always* laborers—because to use capital one must become a laborer. It often becomes advantageous for a laborer, who has not been able to save his own capital, to borrow wealth for his own use as capital from someone who has been able to save it, and to pay the market price for the hire of this wealth until he can return it. That which Labor pays (out of increased product made possible by borrowing) for the hire of wealth used as capital is true economic interest.

Labor will pay no more for the hire of capital than a rate at which it is profitable to borrow. In a free market the rate will be fixed by the higgling of the market, as is the price of everything else.\*

We have seen that land has no rental value so long as other land of equal value can be had free; but when the demand for any grade of land becomes greater than the supply of the same grade of land that can be gotten free, then rent arises and that land has a price. The same is true of capital. When, in relation to demand, there is little wealth in the market loanable as capital, interest rates will be correspondingly high. When the supply of wealth offered as capital is greater than the demand, interest rates will be correspondingly low or interest might disappear entirely. But capital is not a fixed quantity as is land; the amount available can be increased or decreased at the will of man. When rates are low, less capital is offered, which is quite natural. This lessens

\*It is well to understand clearly the *cause* of interest: the reason why anything commands price is that the demand for that thing exceeds the supply that can be gotten for nothing; interest is the price that is paid for the loan of capital; therefore, the cause of interest is that the demand for loanable capital exceeds the supply that can be gotten for nothing.

As to the justice or injustice of interest: if A makes a tool which B wishes to borrow, it would be *unjust* to prevent the transaction, on any terms mutually and freely agreed on. To deny to A the right so to loan his property would be to deny, to that extent, property rights.

There is a tendency to regard interest as unjust, due, largely, to failure to realize what true interest is. It is payment for the loan, not of money, but of some form of actual, material wealth that Labor is using to increase its product—its wages. It is what one pays for the loan of a boat used to increase one's catch of fish. It is what is often defined as "what is received for the 'use' of capital." This must mean for "using" or for "permission" to use. As it cannot mean the former, it must mean the latter—the loaning of.

the supply of available capital and tends to cause interest rates to rise. Then when interest rates are high, wealth will be saved and converted into capital in order to take advantage of these high rates; and this increased amount of wealth in the market, which can be used as capital, will tend to bring interest rates down again.

Thus, as stated, the prevailing rate of interest will be fixed by the relation between the demand for and the supply of wealth to be used as capital. The rate will not be determined by the amount of extra wealth which can be gotten *by* the use of capital. If it were, interest rates would increase with the march of invention, and we know this does not occur. If it did occur, practically all the wealth produced would be interest, since men can produce so much more with the aid of capital than they can without it.

Since it is always, and only, Labor which uses capital, it is always, and only, Labor which pays for the loan of wealth used as capital; therefore interest must be paid out of that part of the wealth produced which is on the

Product	
rent	wages
	interest

wage side of "the rent line." This means that out of the wealth produced, that which the Law of Rent determines shall go as rent must always be the land-owner's share; but from that which payment of rent leaves must come not only the portion Labor can keep for itself, but also the interest which Labor must pay for the hire of the capital it uses.

But though Labor pays for hire of capital, the borrowing of capital is advantageous to Labor, because

the use of capital enables Labor to produce much more than it could otherwise. Therefore, Labor's wages and standard of living are very much higher than they would be if it did not use capital. In order for capital to get a return, or even in order for it to be maintained, it must have Labor use it. Labor will not use capital unless it benefits thereby. Therefore, capital can get no return unless and until Labor has benefited by its use, notwithstanding so much current opinion to the contrary.

### RECAPITULATION

When all land is free and no capital is used, all the wealth produced goes as wages;

When all land is free and capital is used, all the wealth produced goes as wages; but out of these wages Labor must pay interest for the hire of the wealth it uses as capital;

When the best land is taken up and more is needed for use, basic wages will be fixed by what Labor can make working for itself on the best land free to it; the rent of each piece of land being determined by its productivity over the productivity of the poorest land in use; interest will be fixed by the relation between the supply of and the demand for capital;

When land is all taken up, competition for jobs among laborers will force all wages down to the point of bare subsistence. Rent will take most of the product.

### QUESTIONS FOR DISCUSSION

- 1—Does the man who owns land, and uses it for his business, receive any rent for it? Does the man who owns the land under his residence receive any rent? Is there any difference between the two? If so, explain why.

LESSON

III

ERRONEOUS THEORIES REGARDING THE  
CAUSE OF ECONOMIC DISTRESS

*"It is assumed that labor is available only in connection with capital; that nobody labors unless somebody owning capital, somehow by the use of it, induces him to labor. But Labor is prior to and independent of capital. Capital is only the fruit of Labor, and could not have existed if labor had not first existed."*—ABRAHAM LINCOLN in message to Congress, 1861.

WE HAVE LAID THE FOUNDATION OF THE SCIENCE WE are studying (1) by analyzing the definitions of economic terms, showing them to be self-limiting, and to include every factor in the production and distribution of wealth; and (2) by outlining the laws governing the distribution of wealth, thus demonstrating that the portions going as rent, wages and interest are fixed not by individuals, nor by corporations, nor by laws passed by legislatures, but by natural economic laws which are as universal and as immutable as is the Law of Gravitation.

We now could build our superstructure; but, before doing so, let us consider some of the current theories used to explain why poverty persists with plenty—theories which, though false, are used as the basis of many arguments and of much legislation; which theories, how-



ever, cannot stand the test of sound reasoning, because they are based on false premises.

For instance: often it is assumed that there is only a given amount of work to be done; and shorter hours and shorter work weeks are suggested, not because these are good things in themselves (which of course they are) but in order to "spread the work," so that as many people as possible shall have some employment. Now "work" (labor), is nothing but human energy spent in trying to satisfy human desires. We know that human desires are illimitable, insatiable. But if human desires are insatiable, then there can be no limit to the amount of labor necessary to produce the things needed to satisfy these desires. Why, then, must there be any "spreading of the work" in order to give as many as possible a bit of it to do? The answer is that, due to low wages or unemployment, people cannot afford to buy the things with which to satisfy their desires. If a condition were established wherein everyone could satisfy his desires for material things, the demand for such things would be unlimited, and, likewise, the demand for labor to make them. The remedy, then, lies not in "spreading" what work there is, but in removing the cause of the unemployment and low wages which prevent people from buying the things they want. So long as this cause is left in operation, low wages and unemployment will, must, continue.

Another common fallacy is one to which reference was made in our first lesson. Because wages are usually paid in money, and are often paid before the article worked on is fully completed, it is inferred that wages are, and must be, paid out of capital. From this false premise springs the belief that Labor is idle because

capital is idle. One bewildered economist, for instance, explicitly makes this statement:

"It is because dollars are out of work that men are out of work. It has been estimated that someone must put \$6500 worth of machinery into the hands of every workman, on the average, before he can do a day's work."

What a mistaken view! Labor does *not* need Capital to pay its wages; Labor does not even need to have capital in order to go to work. Labor employs Capital; Capital *never* employs Labor. Of course it is true that Labor can produce much more if it has capital to use; but, if Labor can apply itself to land, it can go to work without capital, and will produce its own wages. Then it can save for itself the capital it needs. The bootleg coal industry in Pennsylvania demonstrates this. (For simplification, we will leave aside all questions as to whether it was proper for these men to dig coal out of land not legally theirs.)

These miners started with practically no capital; many of them at first had no more than pick and shovel. With this simple equipment they dug coal. The coal was their wages, which they exchanged for food and clothing. After making this exchange they still had their picks and shovels—their capital. *Their* wages were not paid out of their capital, nor out of any wage fund; their wages were what they produced as they worked. And this is true in every industry. Whenever Labor works, it produces wealth which previously did not exist. The wages of Labor are a part, or sometimes even all, of this wealth produced by Labor.

Our American pioneers had very little capital, especially at first, but they had no lack of employment, and

as they worked they produced their own wages and saved their own capital.

It was not long before many of the bootleg coal mines were using quite elaborate equipment, which the miners had bought out of their own savings (capital always comes out of savings); showing that, even in modern conditions, when it becomes necessary, Labor, if it has access to land, can accumulate its own capital. Usually when Labor wishes to start in business for itself, it can borrow all the capital it needs; but these miners could not borrow—being in an illegitimate business, their credit was not good.

Suppose all the wealth in the world were made free to Labor to use as capital, but at the same time Labor were prohibited from going to the land to get new raw materials, what would result? Labor could work until all existing materials had been made into a form to satisfy human desires, then it would need to stop; for there would be nothing more for it to work on; nothing more could be produced for people to eat, or wear, or otherwise enjoy. Labor not only would be out of work, it would perish.

But if, instead of being given access to capital without access to land, Labor were given access to land without access to capital, it could never work itself out of employment; for, in addition to maintaining itself, it could, and would, make for itself all the capital it might need.

Instead of the primary need being that Labor have access to capital, it is that Labor have access to land. Labor without land is helpless, but given land, Labor is not dependent on Capital.

Because the true nature of capital is not generally

understood, it is often charged that capitalists designedly hold their money or their capital idle, and thus cause or prolong a depression. But how much money does any individual have? Not how much can he get, but how much does he actually have in his possession? Practically no one ever has any great amount of money. Even the banks do not have the great amounts with which they are often credited. What cash they have they use as a revolving fund; paying out some to A, who uses it to pay B, who redeposits it, when it will be paid out to C, and so on. Even our most wealthy men have little money. What they do have, practically always, is investments in wealth or in some form of land, but not money. Therefore they cannot be holding vast sums of money idle for ulterior purposes. As for wealth: anyone who holds actual wealth finds that it tends to decompose quite quickly. To hold it idle from spite, or for any other reason, is to risk the loss of the wealth itself. Often to close a factory, even for a few weeks, means that before it can reopen, much of the machinery there must be replaced or repaired. For a capitalist to keep his holdings out of use for any great length of time would mean loss to himself.

The effect of withholding land from use is very different, as will be shown in our next lesson; but land is not, and never can be, capital.

Just as Labor so frequently blames Capital for its ills, so Capital, quite as often, attributes its difficulties to Labor. Many an employer who fails in business believes it is because his capital has been used up in paying wages to his workmen.

Frequently, it is true, employers cannot dispose of the goods they have on hand for an amount equivalent to that paid out as wages in producing the goods, and

therefore find their savings lessened, or possibly entirely dissipated (if the goods cannot be sold at all). This does not mean that the workmen did not produce their own wages as they worked. It may mean that because of some miscalculation or mismanagement, the employers have been caught with goods on hand in a falling market, that they cannot sell for as much as they cost. (When an employer pays wages to his workmen in cash, he is actually buying from them the wealth they have produced while working for him.) If at the time the work was done, the value of what Labor produced was equal to the wages paid, then the wages did not come out of the employer's wealth, nor did the payment of these wages decrease his capital; they came out of the wealth produced by Labor.

Often, it may be, taxes and restrictions on a business are so great that the business fails and the employer loses accordingly. Such a failure would not be caused by any payments which had been made as wages but would be due to these taxes and restrictions. Often, too, the charge for rent, or payments made on the purchase price of land, may prove such a burden that the employer cannot carry it and pay average wages, and therefore fails. Here again the failure would not be due to wages being paid out of savings, but, instead, to the cost of the land. Never can wages be said to be taken out of savings, unless the value of the things produced by Labor, *at the time they are produced*, is less than the wages paid; and even then, all that could be said to come out of savings is the difference between the amount paid the workmen and the value of the product.

To illustrate: a buyer agrees to purchase a certain building if the contractor will have it finished within a

week. The contractor supplies the capital, which consists of the tools used. He supplies, too, the building materials. He hires men to work on the building, and at the end of the week the building is completed. If it is sold at the end of the week, it will have a greater value than the materials out of which it was made. If this increase in value amounts to \$2,500, and if \$500 of it is needed to pay rent for the land, interest on the capital, replacement of worn tools and other incidentals, the remaining \$2,000 is wages for the laborers (of which the employer is one if he helped in the work by supervision, or in any other way). After these wages are paid, the employer will still have his capital intact; the wealth that was building materials before is now a building. He can sell the building and replace in his bank account the cash which his men received in exchange for the product of their labor; and, if he likes, he can buy other building material to replace that used in this building.

But suppose the prospective buyer cannot keep his contract. The contractor has the building left on his hands, and may not be able to sell it to anyone else until its market value has so declined that he loses much of that which he put in. What he loses will not have been lost because it was paid out to Labor as wages. It will have been lost because the contractor, through no fault of his own, misjudged his market, and bought from his workmen wealth he cannot resell at the price he paid.

Though Capital and Labor both suffer when they are idle, the sufferings of Labor are not caused by Capital, nor are the sufferings of Capital caused by Labor.

If wages are not paid out of capital, but are produced by Labor as it works, then nearly all of the current theories regarding the relation between Capital and

Labor are invalid, and the legislation based on these theories is not only useless but actually harmful.

Linked with this fallacious theory of wages being paid out of capital, is the Malthusian theory—another fallacy.

For centuries, thoughtful people have noted that the struggle to secure a livelihood was growing more and more severe for the greater part of the people, and realizing that both the condition of the poor and the intensifying problems of the business man must have a cause, they have been seeking to find it, knowing that no condition can be cured until its cause is removed.

In 1789, Robert Malthus, an English economist, believing he had solved the problem formulated the theory that bears his name. He contended that poverty is caused by populations increasing faster than the ability of the world to support them. He said there is a tendency for populations to grow by geometrical progression, doubling themselves every twenty-five years while the subsistence which can be obtained from land, "even in conditions most favorable to industry," cannot be made to increase faster than by arithmetical progression.

No one can intelligently estimate what the natural rate of increase in population is at any given time. Conditions change too rapidly to make this possible. But it is not at all difficult to demonstrate the incorrectness of Mr. Malthus' contention that poverty throughout the world is due to inability to increase the production of wealth in proportion to increase in population, whatever the rate of the latter may be.

If the world were actually overpopulated many of its symptoms of distress would be similar to those we see today; therefore, it is easy to jump to the conclusion that

the theory Malthus postulated is correct. But when we examine the theory and try to apply it to facts as they really exist, we find that it simply does not fit. And if we find that the cause of involuntary poverty is not overpopulation the Malthusian theory will stand discredited. Then we must look elsewhere for the cause.

However long it may be that humans have lived on the earth, we know that the earth is very sparsely populated.

The population of the world is estimated to be about two billion. The area of Texas is 265,896 square miles. If all the people in the world were moved to Texas, there would be but 11.7 people to the acre—each family of four could have for itself a plot  $70 \times 210$  feet. It is not improbable that the whole population of the world could live on what modern industry could produce in Texas with its mines, oil fields, forests, fisheries, its grazing lands, its cotton, wheat and other agricultural lands; but at any rate there would be no overcrowding, and certainly, an area not much greater than Texas would suffice to supply their needs.

Taking the world as a whole then, we see that its population has not yet outrun subsistence, by any means. And there is no convincing evidence that populations even tend to increase in geometrical progression as Malthus thought. For instance: in China the descendants of Confucius enjoyed certain privileges not granted to others, therefore it is probable that every individual in that family would make himself known in order to obtain these privileges. About 2,150 years after the death of Confucius, his descendants were counted. If this family had doubled every 25 years, it should then have numbered millions upon millions of millions; instead of which



it numbered about 22,000. It may be contended that this is the record of but one family, whose history for some reason may differ from that of other families. Let us then consider the population of the United States (only the figures for the last 50 years will be considered, since the area increased with each census before that).

1790	3,939,214	17 states
1810	7,339,811	26 "
1830	12,866,020	28 "
1850	23,191,879	36 "
1870	38,559,371	46 "
1890	62,949,714	48 "
1910	91,972,266	48 "
1940	131,669,275	48 "

A study of this table shows that our population has barely doubled itself once in 50 years. If the population of 1890 (62,949,714) had doubled itself each 25 years, by 1940 it would have been well over 250,000,000. Also, to show the actual rate of the increase of population in the United States, from the 131,669,275 of the 1940 census, should be deducted the number of immigrants who arrived during these 50 years; who, by coming here, to that extent have decreased the population elsewhere. (Moving people from one place to another does not mean an increased population, both places considered.) The descendants of these immigrants also should be taken into account. The number of foreign born in the United States in 1930 was about 15,000,000. If their descendants were of an equal number, and we deduct the sum of these two figures from 131,669,275, our population in 1940 would have been around 100,000,000—about two-fifths of what it would have been on the basis of doubling every twenty-five years.

Though the population of the United States has increased at nowhere near as rapid a rate as to double itself in 25 years, it has actually increased about 100% in 50 years. Has our ability to produce wealth increased so slowly that this increased population cannot live at as high a standard as did their grandparents? Is it true that subsistence cannot be made to increase faster than by arithmetical progression? To see how fallacious is the Malthusian theory when applied to the whole country, compare the population and national wealth of the United States in 1900 and in 1930 (these figures from the United States census erroneously include land values as wealth, but the percentages of true wealth included in the figures are probably about equal in both cases):

YEAR	POPULATION	NAT'L WEALTH	PER CAPITA
1900	75,994,575	\$ 88,517,307,000	\$1,167.50
1930	122,710,630	329,000,000,000	2,677.00

Note that the per capita wealth in 1930 was more than double what it was in 1900. Certainly if there was any increased poverty in this country in 1930 over what there was in 1900 (and 1930 was a depression year, while 1900 was a year of "prosperity"), it could not have been caused by lack of subsistence to feed the increased population; because, *per capita*, the people were more than twice as wealthy as they were in 1900.

A low standard of living in a country does not necessarily mean that its population is too great to be supported by its resources. Compare the State of Washington with Mexico. The density of population in both places is practically equal: Washington has 23.4 people to the square mile, while Mexico has 21.5. Certainly the

natural resources of Mexico are not inferior to those of Washington, yet the per capita wealth in Washington is \$3,669 while in Mexico it is reported to be about \$400. Can the poverty in Mexico be due to overpopulation? If it were, the poverty in Washington should be equally as great. Though there are many cases of poverty in Washington, its average standard of living is much higher than that of Mexico.

Yet in spite of such convincing figures as these, and many others equally convincing and easily obtainable, we find a belief in the Malthusian theory running through the economic thought of the whole world and influencing its actions. It is true that many economists assert that the Malthusian theory is incorrect; yet, though nominally the doctrine itself is denied, its spirit is retained, influencing not only the mind of the average man, but also the acts of legislatures, and often the arguments of economists themselves.\*

Consider the prevailing idea of war and its causes. Why do people go to war when the whole idea of war is abhorrent to the average man? Perhaps a desire for prestige, a love of power, are slight factors; but these would not be sufficient to cause any nation to go to war if they were not backed by other, immensely more powerful forces. These other determining causes are economic, and the ones we hear most frequently mentioned are: need for new markets; need for access to raw materials,

\*As an illustration of the persistent influence of the fallacious Malthusian theory: In "Limits of Land Settlement—A Report on Present-day Possibilities," published by the Council on Foreign Relations, N.Y., 1937, the author purports to show that all of the United States, most of Canada, all of Europe, and most of Asia, are now fully "over-settled." Only Inner Asia and South America, according to this report, present opportunities today for settlement of the white race.

and the plea of overpopulation—over-crowding. A nation will claim that it cannot provide food and a livelihood for its own people from its own resources, and therefore that it is justified in going to war with another nation in order to decrease the poverty and unemployment at home. But there is not a country in the world which is overpopulated unless by reason of artificial conditions; nor is there one which needs raw materials it cannot buy, except as tariffs or other restrictions prevent trade between nations (raw materials from a conquered country are not supplied free of charge).

Those who believe that our unemployment and economic distress are caused by overpopulation should consider these population figures:\*

England	has	742.2	people,	per	square	mile;	Spain	has	147.4
Belgium	"	698.8	"	"	"	"	China	"	112.5
Japan	"	433.3	"	"	"	"	United States	has	41
Germany	"	360.7	"	"	"	"	Mexico	"	21.3
Italy	"	349.1	"	"	"	"	Canada	"	2.8
France	"	196.9	"	"	"	"			

Some parts of the British Empire are still more densely populated than England: the Channel Islands have a population of 1280 per square mile, and the Isle of Malta has 2000 to the square mile; yet in both of these places the living is chiefly by agriculture and fishing, not by manufacturing.

Sometimes it is contended that the habits and customs of a people, or their type of government, may so affect economic conditions that what might be over-population for one country would not be over-population for another. To see that differences of this nature can have but a trivial effect, compare England with 742 to a square mile with Canada, which has but 2.8 persons

\*Figures from 1935 "World Almanac."

per square mile and living conditions quite similar.\*

We frequently see references to the "Have" and the "Have Not" countries, and the suggestion that those which "Have" more territory and resources should divide with the "Have Nots," in order that the relation between populations and subsistence in each country would be more nearly uniform. Would any benefit come to the masses of the people from such a division? The Empire of Great Britain covers one-quarter of the globe. If being a "Have" country means that the living conditions of its people will be better than those in "Have Not" countries, then the people in Britain should be especially fortunate. Is the condition of the British workman so much better than that of the workingman in tiny Switzerland? The history of doles in Britain shows that it is not; and if Britain tomorrow should become possessed of half the globe instead of but one-quarter of it, the wages of the British workman would not be raised a single penny. Wages are not determined by the size or productivity of the country in which one lives, nor by its density of population—wages are fixed by the productivity of the free land available to the *individual*. When there is no more free land for the worker, wages will be fixed by the standard of living at which men are willing to live and reproduce.

\*Though the population of the United States is fourteen times as dense as that of Canada, it is only about one-fifth as dense as that of France and one-seventeenth as dense as that of England. Nowhere have subsistence possibilities been overtaken by population. The World Almanac, 1942, gives the figures for the basis of these comparisons and the average resources of the respective countries do not seem to vary too greatly for the purpose of the comparison made. If all the land of America were owned by one family, to all others the condition would be the same as though there were overpopulation.

Nor are we here in the United States any more logical regarding economic questions than are the people of other nations, for we see the same ideas expressing themselves here as there. Our State Department spends much time and energy in trying to create new markets abroad for our goods; though since, because of low wages and unemployment, millions of our own people are without proper food, clothing and shelter, it would be more logical to give our first attention to developing our own markets here at home. We restrict immigration, only to be met with a demand for still further restriction in order to keep out those who might compete here for jobs; thus implying that there are too many men here now for the work there is to be done. Women, especially those who are married, constantly are being told they should not work outside their own homes, because in doing so they take jobs from the men. One of the arguments used for birth control is that it will prevent further overpopulation. Even in the agitation for child labor laws, an argument frequently heard is that the children take jobs away from the men. We have plans for old age pensions—the pensions usually to be forfeited if those receiving them accept work for pay of any kind. This provision is inserted to induce men and women over 50, 60 or 65, as the case may be, not to compete for jobs, but to make way for younger people. Even though other arguments pro and con are used in discussing all of these subjects, we find that one of the chief supporting arguments used for all of them is based on the idea that there is not enough work to go around, because we are becoming overpopulated.

Those who believe overpopulation is the cause of the economic problems which confront our nation contend

that we must plan for the relief of millions of people here, nearly always found out of employment in peacetime. But why is there any necessity for these people being continuously unemployed? Are our natural resources exhausted? Everyone knows they have scarcely been touched! Are we lacking in the skill and knowledge which will enable us to use these resources? Probably in no other country do the people have greater ability to produce wealth when they have an opportunity to do so, than have our own people! Do all of our 131,000,000 people have everything they want, so that there is no work for the unemployed to do in making things to satisfy these wants? It would be difficult to find even one person who cannot name many things he would like to have if he could afford to have them! Here are our millions of unemployed—don't these people want to work? Every self-respecting individual wants to feel that he is earning his own way and is not an object of charity, either from the government or from individuals.

If, then, we have the resources from which to produce material things, and if we have the skill and ability to use these resources (both of which are certainly true); if we have millions of people who would like to have things they now lack which could be made from these resources, and also have millions who would like to go to work making these things now lacking, what is it that causes unemployment?—for there must be a cause. How can there be scarcity of work until all of our wants are satisfied, if our resources are not exhausted? Nowhere can poverty and unemployment be due to overpopulation unless all of the natural resources are in use and found to be insufficient to supply the needs of the population; and nowhere is this true.

The Malthusian theory is so easy to disprove that it would seem unnecessary to give so much space to it, were it not for the fact that it, and the theory that wages are taken from capital, when taken together, *seem* to explain so many of our present economic ills, that one constantly needs to be refuting the arguments based on them. Neither of these theories is true and no extended arguments are necessary to demonstrate their falsity; all that is needed is a consideration of actual records to which everyone has access; yet practically all of our remedial legislation has been based fundamentally on these assumptions—as are most of the economic arguments heard from one end of the world to the other.

When it is realized that unemployment is not caused by overpopulation and that wages are not drawn from capital; when it is seen that all Labor needs is an opportunity to apply itself to our natural resources in order to produce not only its own wages, but also its own capital (as the bootleg coal miners have demonstrated), the field will have been cleared of the worst of our present-day misconceptions as to the cause of our economic troubles.

#### QUESTIONS FOR DISCUSSION

- 1—If a farmer raises and sells 100 bushels of wheat, when does he receive his wages?
- 2—If the work performed by an M.D. is not labor, how would one classify the energy exerted by a veterinary? Does he labor? Does he produce wealth? Does he receive wages? Give reasons for your conclusions.
- 3—When does an article produced by labor become wealth? When does it cease being wealth? When it ceases being wealth does it ever become land or man?



- 4—When does an article produced by labor become capital? When does it cease being capital? When it ceases being capital, is it land or man, or wealth? Why?
- 5—Does the lender of capital perform any service for the borrower?  
Does the borrower of capital perform any service for the lender?
- 6—A man owns the house and lot where he resides; he also owns the building and lot where he does his business. Is each, or any of these a part of his capital? If he mortgages his home and uses the money thus obtained in his business, would this change the economic status of his home? Why?
- 7—Under what heading, in economics, would one class a newspaper? Would it be the same to the printer, the advertiser, and the man who buys it to read?
- 8—When is a factory capital? When is it not capital?
- 9—Can poverty in any given country ever be due to overpopulation so long as the natural resources of that country are not all in use? Why?
- 10—A bridge requires a year to build. The wages of the workers are paid weekly. Are these wages paid out of the capital of the contractor?
- 11—If an employer makes an “advance payment” to a worker, is this an advance of wages, or is it a loan? Why?
- 12—If an employee, instead of taking his pay from his employer as fast as he produces, waits for it until the end of the week, has he, in the meantime, been extending credit to his employer, even if neither party recognizes that this is taking place? If not, what has he been doing with his wages?
- 13—A builder contracts to erect a building, supplying tools and materials and superintending the work. To what extent is he (1) laborer, (2) capitalist, and (3) owner of wealth that is not capital? Why?

LESSON  
IV

THE EFFECT OF INCREASED POPULATIONS,  
IMPROVED METHODS AND MACHINERY, AD-  
VANCES IN THE ARTS AND SCIENCES, AND  
LAND SPECULATION

*"The present century has been marked by a prodigious increase in wealth-producing power. \*\*\* It was natural to expect that labor-saving inventions would lighten the toil and improve the condition of the laborer. \*\*\* Now, however, \*\*\* from all parts of the civilized world come complaints of industrial depressions, of labor condemned to involuntary idleness, of pecuniary distress among businessmen. \*\*\* This can hardly be accounted for by local causes. \*\*\* Beneath all such things as these we must infer a common cause."*—HENRY GEORGE in "Progress and Poverty."

Part I—EFFECT OF INCREASED POPULATION

AS SHOWN IN THE PRECEDING LESSON, LOW WAGES, unemployment and an increasing keenness of competition in the struggle for a living are not caused by there being more people in the world, or in any given country, than can be supported comfortably. In formulating his theory, Malthus overlooked the fact (probably not so evident in his day) that as populations increase, the *rate of production* increases still more rapidly. The natural result would be to raise, not to lower, the standard of living.

To see why this is so, note these diagrams: in No. 8 we will assume that each man is working alone, producing for himself everything he has; also that there are three grades of land on which labor of a given effi

	60	60	60
	80	80	
Wages	100		
	100	80	60
Rent	0		
	20	0	
	40	20	0

No. 8

ciency can produce 100 from the best land, 80 from the second grade and 60 from the third grade. As shown in Lesson II, so long as only the best land is in use, wages will be 100 and rent 0. When the best land is all occupied and the 80 land must be used, wages will drop to 80 and the rent of the best land will rise to 20. When the 80 land is in use and settlement begins on the 60 land, wages will be reduced to 60 and the rent of the 100 and 80 land will be 40 and 20 respectively.

Judging from this, it would seem, at first thought, that Malthus was right—that wages and the standard of living *must* decline as population increases and poorer lands are brought into use. But this would be to disregard a vital fact that Malthus overlooked, i.e., the increased production resulting from co-operation, specialization and exchange among men. Man is a reasoning being, and very early in his history he learned that two people working together can produce more than can the same two working separately; that 20 men working together can

produce more than can ten groups of two; and that the man who insists on producing everything for himself will be the one who has the least.

For instance: in a primitive group, one man is an excellent farmer but a poor fisherman. By spending half the week farming he can produce an average of two bushels of potatoes; by spending the other half fishing, he can average six fish. His neighbor is a poor farmer but an excellent fisherman. By working an equal area of the same grade of land as the first man, he can average but a quarter of a bushel of potatoes by half a week's work, but by fishing the other half he can catch thirty fish. If the more capable farmer will take over both plots of land and spend all his time raising potatoes, he will average four bushels per week; if the fisherman will spend the whole week fishing, he will average sixty fish per week. Now if these two men come together and exchange, each giving the result of half of his labor for the result of half of the labor of the other, each will have for his week's work, two bushels of potatoes and thirty fish. Neither man has worked any longer, nor any harder than before, but note the difference! The wages of both men have been very greatly increased, because each has worked at the job at which he is the most efficient.

But these two men cannot spend all their time farming and fishing; they must have also clothes and shelter. When a carpenter joins the group, all can have more potatoes, more fish, and more and better buildings than if each did everything for himself. When a weaver joins the group, all can have more potatoes, more fish, better buildings and better clothing than before, with the same labor.

Reasoning from experiences such as this, mankind has learned that if each will work at the task for which he has the most skill, and then exchange all or a part of what he has produced for what others have made, at the end of any given period, each will have a greater amount of wealth than he could possibly have had without this specialization and exchange. Without the use of any improved tools or methods, the amount of wealth which Labor can produce from any given land can be very materially increased by specialization and exchange alone. If the community be small, it will not be possible for each to specialize in doing just one thing. The larger the community, the greater the specialization can be. The greater the specialization, the greater the production, and, therefore, the higher the wages.

In diagram 8, where the workers are represented as working separately, the first and second grade lands produce 100 and 80 respectively. If, when all work at the jobs for which they are best fitted, they increase their

Wages	120	120
	150	120
Rent	30	

No. 9

production 50%, the best land then will yield 150 and the second grade 120. The rent of the best land will be 30, and all wages will have increased to 120, as shown in diagram 9.

But in order for the weaver to have more cloth, more cotton or larger flocks of sheep must be raised; the carpenter will need more lumber if he is to do more build-

ing; for the shoemaker to have more leather to make more shoes, the number of, and therefore the range for, cattle must be increased. This increased demand for things gotten from the land may make it necessary to bring a poorer grade of land into use. If by specialization and exchange the productivity of the third grade of land also has been increased 50%, it will now yield 90, and the

Wages	90	90	90
	150	120	90
Rent	60	30	

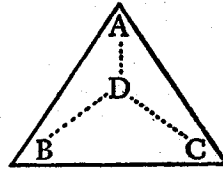
No. 10

rents of the other grades of land will rise to 60 and 30 respectively. Thus, though in any given condition (if there are no counteracting influences), as poorer lands are brought into use, rents will rise and wages fall, the natural result of the increased specialization and exchange made possible by an increased population is to counteract this tendency, making both production and wages much higher than they would have been if each worker had worked alone.

However, it is not always necessary to take up poorer grades of land to supply the needs of an increasing population. A changed method of agriculture which makes it possible to produce two crops a year instead of one on the same land will have the same effect on production as would the bringing of more land into use. A better method of refining which permits the extraction of 75% of its copper from ore which before had been yielding but 50% of its copper, would be equivalent to getting this increased amount of copper from another mine. In-

creased production made possible by improved methods or machinery does not necessarily require a poorer grade of land to be brought into use.

Likewise, by saving time and effort, a central warehouse to which people can come to make exchanges, makes possible a greater production without bringing a poorer grade of land into use. For instance: if A, B and C live



No. 11

a day's journey apart, and if each spends two days each week in traveling to exchange his goods, he will at the end of the week have a certain amount of wealth. But if they now establish a central warehouse to which each can bring his products for exchange, and if to reach this warehouse requires but half a day's journey, each can have at the end of five days of labor approximately the same amount of wealth he formerly had as the result of six days of labor.

This explains why cities grow. Here we find factories, warehouses, retail shops, markets, railroad terminals and many other facilities set side by side—here exchanges can be easily and quickly made. Because of this, energy expended in a city will produce, in many fields of activity, more than will the same effort expended elsewhere. The most valuable lands in the world are those to which have been given a vast productivity by dense populations. Land values in New York and London are

almost unbelievably high. While the fertility of farm lands is one of the elements fixing their value, the fertility of land under a city counts for nothing. The amazing productivity of these lands is caused by the number of people here working together and the ease with which exchanges are made.

Every new member of a community, whether he be a newborn child or an immigrant, increases the demand for labor products, and thereby increases the demand for labor. He brings not only two hands and a brain with which to work, but he brings also a demand for things he himself cannot make. Therefore the NATURAL result of each increase in population is to increase the demand for labor and raise wages, not lower them.

**Part II—EFFECT OF ADVANCES IN THE ARTS AND SCIENCES,  
AND OF IMPROVEMENTS IN METHODS AND  
MACHINERY**

Until what we might call "The Industrial Revolution," it took the full time of the greater part of the population to produce enough food, clothing and shelter to provide even a low standard of living for all. Luxuries were obtainable only by the very few. The cultures of Persia, Egypt, Greece and Rome were made possible only by the most abject slavery of the vast majority. This seemed so unavoidable that Aristotle wrote: "Human slavery must persist until the loom learns to weave itself." During the entire period prior to the Revolutionary War (which was practically coincident with the beginning of our great industrial development), famines were common, as it was not possible to produce enough to provide a surplus for use in times of drought and other disasters.



Now, in most of the world, all this is changed; largely because of improvements which have been made in methods and machinery, in the arts and sciences. In 1765 Watt developed the steam engine, and from that time industry has gone forward with greater and greater strides until today, in some fields of production, it is possible for a man to produce more in an hour than his grandfather could produce in a month.

According to a report of the Brookings Institute, in the United States, in 1830 it took the labor of 72% of our people to produce enough food for the whole country. In 1930 it took less than 23% to produce this food. This released 49% of the people from producing food and permitted them to produce other things, once counted as luxuries.

To show a concrete instance of this result: in 1900 in the United States it took 30% of our people to raise our food; in 1930 it was done by about 22%. If, in 1930, 30% of our people had been required to raise our food, 7,000,000 more men would have been required in agriculture than were so employed. Were these 7,000,000 men unemployed because of the mechanization of agriculture? Not at all! One million of them were employed in making the machines which the farmers used in agriculture, plus twines and gasoline for farmers' use. Six million were employed in the automobile industry, which before had not existed. They dug iron, copper, etc. used in automobiles; they made steel and rubber for automobiles; built the cars; built the roads and kept them repaired; ran the gasoline stations and garages, and repaired the cars. All of this in 1930 required the labor of about 6,000,000 men. Therefore, due to advances in the arts and sciences between 1900 and 1930,

it became possible to have both agricultural products and automobiles, instead of only agricultural products, with the same amount of labor.

The *first* effect of an improved machine is to save labor; that is, it makes possible the production of the same amount of wealth as before with the expenditure of less human energy. A new weaving machine which made possible the weaving of ten yards of cloth where five had been woven before, would make it possible for the weavers to live just as well as before by working half the time. But the desires of men tend to grow as the possibility of satisfying these desires increases; therefore, probably most weavers would prefer to work the same length of time as before, and so raise their standard of living; as, in this way, their wages would be doubled.

The *second* effect, then, of the new weaving machine would be to increase the production of cloth. Since the increased production of anything with the same amount of labor as before means a reduction in its cost, the *third* effect of the improved weaving machine, if the field be unmonopolized, would be a reduction in the price of cloth to consumers. This would mean that after the consumers had bought as much cloth as formerly, they would have something left to spend for more cloth, or, if they needed no more cloth, for other things. The *fourth* effect, then, of this machine would be an increased demand for, and hence an increased production of, those other things which the weavers and users of cloth would like to have, but which they were formerly unable to buy. Thus the *fifth* effect of this improved machine would be an increased employment of men to make those other things.

To illustrate from another angle: a man has produced \$10.00 worth of wealth and decides to exchange it for a hat. But since he last bought a hat, improved machines or methods have made it possible to produce a hat of the same quality for \$5.00. He buys the hat, and having \$5.00 over, he buys a couple of books he would not have bought if the price of hats had not been reduced. With this extra \$5.00 he has put men to work making books, and to this extent, these makers of books can buy things they could not buy while they were unemployed.

Thus the NATURAL result of an improved machine is to cause a ripple of increased purchasing power to spread all through society; and to increase employment, not to decrease it, as so many believe.

If, at the time of introduction of the improved weaving machine there were no prospect of an early demand for the extra amount of cloth it made possible, then its introduction might bring a temporary hardship to some individual weavers, who would be obliged to find new jobs. But more efficient machinery never decreases the desire for labor products. That desire is insatiable. The improved machine, by decreasing the cost of cloth, would make it possible for consumers of cloth to satisfy desires for goods of other kinds. This would mean that more workers would be needed to make these other goods, and therefore jobs would be waiting, or very quickly would be opened, for those displaced by the new weaving machine, if there were any such. And always, on the edge of every industry, are those who could fit into another industry as well as they fit into that in which they are now engaged, and who, therefore, would find the change no hardship. And, too, their wages would

buy more than before, because of the improved machine or method, which lowered costs.

Any improved machine or advance in the arts and sciences which makes possible the production of more wealth by the same labor on a given piece of land, will have the same effect on the rental value of that land, and on wages, as has been shown (diagram 9) must result from an increased population. If the improved machines

Wages	180	180	180
	300	240	180
Rent	120	60	0

No. 12

doubled the amount of wealth which could be produced, then, taking diagram 10 as a basis, the best land now would produce 300, the second grade 240, and the third grade 180. Wages would be 180, and rents 120 and 60 respectively, as shown in diagram 12.

Technological advances have brought into view the possibility of abundance for all, yet we do not have abundance for all. There is a very common impression that laborsaving machines and processes are to blame, because it is thought they have caused unemployment. It is true, of course, that a large number of people are out of work; and, in existing conditions, when improved machines or methods reduce the amount of labor needed to produce a given amount of wealth this often expresses itself, not in giving to each laborer the same amount of wealth for less work, or a greater amount of the produce for the same work, but in throwing some of the laborers out of work and giving them *none* of the product. The

cause of this, though, lies not in the improved machine, but in the fact that the displaced worker has no opportunity of employing himself elsewhere.

It is not logical to charge this scarcity of work to labor-saving machines unless and until every person in the world has everything he or she can possibly want that is made by the improved machine. If, by the use of improved machines, goods could be produced faster than people WANT them (mark, not faster than they can *buy* them), then the cause of unemployment might properly be said to be the improved machines; but until that time comes, any unemployment which may follow the introduction of a laborsaving machine must be attributed to whatever it is that makes it impossible for people to buy the things they would like to have.

If the benefits of technological advances were spread among producers by means of the higher wages and lower prices which the lowered cost of production makes possible, there would be no complaint regarding the introduction of improved machinery. Why is it these benefits are not so distributed? In the following lessons we will answer this question fully. But not to continue to discover and to introduce every possible improvement in machinery and methods means, to that extent, to halt progress. If progressively higher standards of living for the whole people are to be realized, there must be a constantly increasing efficiency of both Capital and Labor. There is no other way by which these higher standards can be realized.

They who argue that laborsaving machinery is an injury to the worker instead of a benefit, to be logical, should advocate the abolition of all machines.

## Part III—THE EFFECT OF SPECULATION IN LAND

*"Land was given by the Creator to man for improvement and cultivation by the possessor in good faith, not for speculation. Man's encouragement and security should be the great object of civil laws; and speculation in land should receive no encouragement from legislation or courts of justice."*—From a decision rendered in 1851 by Louisiana Supreme Court in case of **BUROWS VS. PIERCE**.

*"An individual, or company, or enterprise, acquiring land, should hold no more than is required for their home and sustenance, and never more than they have in actual use in the prudent management of their legitimate business."*—**ABRAHAM LINCOLN** in "Abraham Lincoln and the Men of His Time."

Increased population, advances in the arts and sciences, improved methods and machinery—none of these, in itself, can cause low wages or unemployment. Any one of them may be, and frequently is, accompanied by low wages and unemployment, and, because of this association, unless one be familiar with economic principles, it is very easy to regard one as the cause of the other. But, as shown, the **NATURAL** result of all of these things is increased employment and higher wages. In present conditions, the increasing struggle necessary to get a living is caused by a Frankenstein which society has set up and fostered until now it threatens to destroy civilization itself.

As has been shown, increased population makes possible increased specialization and exchange, and, therefore, an increased production of wealth, per capita, from

any given land; the use of more effective methods and machinery gives the same result; therefore both tend to increase wages and employment. If, however, this tendency should be more than offset by the necessity of resorting to grades of land so low that there would be a consequent lowering of wages, wages nevertheless would still be higher than they would have been without this increased production.

But the gradual bringing into use of poorer and poorer land as actual necessity compels its use is not the process which has been followed in this country, or in any country. The original pioneers did not, nor do people now, acquire only such land as they need for actual use. When it is seen that, in spite of occasional recessions, land in any growing community tends to increase in value, quite naturally many seek to secure more land than they need for their own use, hoping that, by holding it for a future rise in price, a profit may be realized.

To see the effect of this, consider diagrams 13 and 14. Here it is supposed that six families come into a country

$$\text{Wages } 6 \times 80 = 480$$

100	80
100	80
100	
100	

$$\text{Rent } 4 \times 20 = 80$$

No. 13

to settle, and that there is enough of each grade of land to support four families. If each family takes up only such land as it can use, we will have a condition as

shown in diagram 13: four families on the 100 land, and two on the 80 land. Here the total amount of rent for the community would be 80, and the total amount of wages would be 480.

But suppose the first family to arrive pre-empt all of the best land instead of only one-quarter of it; the second family takes all of the 80 land; the third all of the 60; the fourth all of the 40, and the fifth all of the 20 land. When the sixth family arrives there is nothing free to it better than the sixth grade, which will produce but 5. Then the condition will be as in diagram 14. Three-quarters of the land will be idle. Production will be low, because many producers are forced to use the poorer grades of land; and since wages are determined by what a man can make working for himself on the best land free to him, basic wages on all grades will be down to 5, and the combined wages will amount to but 30.

$$\text{Wages } 6 \times 5 = 30$$

in use	in use	in use	in use	in use	in use
held	held	held	held	held	free
idle	idle	idle	idle	idle	
100	80	60	40	20	5

$$\text{Rent } 95 + 75 + 55 + 35 + 15 = 275$$

No. 14

In this illustration some of the six families constituting the population have been pushed out to the poor land, in about three minutes. Would the results have been any different if there had been 600 families, or 600,000, or 6,000,000—or if the process had taken three centuries instead of three minutes? When all the better grade



lands in any country are taken up, and producers are compelled to work on poor land, this result must follow: rents will absorb most of the product, with both production and wages proportionately low.

This is the condition which confronts us today. Land speculation, the holding of land out of use or but partially used, has pushed our people out to the very edge of the desert, or actually into it, in search for an opportunity to make a living, while great parts of our most productive lands are held out of use. This has raised rents all over the country enormously above what they naturally would be, and has forced wages down. This explains why, with practically unlimited resources, we have millions of unemployed, with low wages the rule and not the exception; and also why Labor, out of its own wages, cannot buy the things Labor produces.

If the six families, referred to in these illustrations, had taken up only such land as they could use, as in diagram 13, rents would not be unnaturally high. The sum of the natural rents, resulting from the needs of the people for land, would be 80. But because so much land is held out of use, as in diagram 14, a speculative rent is added to the natural rent, bringing the total to 275. *And what advantage do these increased rents, which are caused by land speculation, bring with them?*

While increased population and improved machines and methods may also raise rents, the natural effect of these is to increase production and to raise wages greatly in excess of the increase in rents; for they can never cause rents to increase until they have increased production and wages. Thus they are only a benefit. But the holding of land out of use never increases production, never raises wages—it only raises rents at the ex-

pense of production and wages. Because it pushes producers out to poorer and poorer lands where their efforts will produce less, it lowers production, lowers wages, and brings with it not one extenuating blessing—nothing but unemployment, a lowered standard of living, and a growing keenness in the struggle for existence.\*

On every hand, one finds the evil results of land speculation. The writer talked with farmers located forty miles from the railroad in Saskatchewan, Canada. It required two men, four horses and four days of time to take a load of baled hay to the railroad and return, it being necessary to camp out one night in each direction. They were making the poorest kind of a living. On being asked why they had come so far into the wilderness to farm when there were thousands upon thousands of acres of fertile virgin soil near to the railroad, they made reply: "Oh, they want \$300 an acre for that land; we got this for \$10.00 and we could pay no more."

Results of land speculation are the same in town and city, where some of the most easily accessible and most valued sites are either quite vacant, or inadequately occupied by what are termed "taxpayers"—buildings which yield only enough to pay carrying charges while the site owner waits for increasing land value. The highly

\*To see clearly the accuracy of the Law of Rent one must see that the law implies the application of the same amount of labor on land at the margin as on the specific land the rent of which is at issue. In comparing the shares of product of any given land that go respectively as wages and rent, the sum of all the wages going to all of the laborers must be used. In the case of an acre of farm land worked by one man, the comparison may properly be made between the rent and the wages of that one man alone; but in the case of a factory, for example, where a thousand men work, the comparison is, properly, between the share of product going as rent and the sum of the wages going to all of the thousand workers.

speculative prices at which these lands are held force business men to the outskirts, though their efforts there produce less.

It would be difficult, if not impossible, to find a locality in this, or in any other civilized country, where land speculation does not thus interfere with production.

Labor, using capital, produces all wealth; but Labor cannot create the materials out of which to produce wealth. It can get what it needs for this purpose only from the land, and then, with or without the aid of capital, change its form or location to make it fit some human desire. Labor MUST have land before it can employ itself. Land held out of use creates an artificial scarcity, and the greater the portion held out of use the greater the scarcity. This is why every civilized country exhibits symptoms resembling those of overpopulation. It is not that a country does not have the resources from which its people could be comfortably supported, but because so many of these resources are held out of use, Labor either must work the poorer lands, or must pay the high rents land speculation causes for permission to use the better grades. And as rents increase, Labor is forced to give up a larger and larger portion of the wealth it produces—for what?

Consider this: in 1626 the whole Island of Manhattan sold for goods said to have been worth about \$24.00. Since then land in the downtown section of Manhattan has sold at the rate of \$28,531,800 an acre. This means that a return on this stupendous sum had to come out of what was produced on this spot before the producers could have anything for themselves. But why should this be? The capitalist supplies the building and equipment; therefore, capital is necessary and useful

in production. Labor uses the capital supplied and exerts the human energy needed in production; therefore, Labor is a necessary and useful factor. If Labor, using capital, produces all wealth, what does the land-owner contribute? A moment's reflection will show that the land-owner, *as such*, does absolutely nothing to aid production; does nothing to benefit society; does nothing for which he is justified in making a charge! He does not supply the land, for Nature does that.

Suppose, by some edict, all labor were to be abolished—men were prevented from doing work of any kind. The result would be that within a relatively few days mankind would disappear from the face of the earth. It would have no food, clothing or shelter, nor any way to get any of these things. *Labor is necessary if mankind is to exist.*

Or, suppose by some such edict, all capital were permanently abolished. Though a part of mankind might continue to exist, it would be turned back to barbarism, and civilization as we know it would cease. Man's ability to produce as abundantly as he does is due to the fact that he has learned to use capital efficiently. *Capital is necessary if our civilization is to continue.*

But, suppose that by some such edict, we could abolish the system which permits a land-owner to charge another for the use of the earth which he himself cannot or will not use. Not only would neither civilization nor mankind be injured, but, to the contrary. Producers then would be free to use the enormously productive lands now held idle; speculative rents would disappear; production and wages would be enormously increased; and involuntary unemployment would be impossible. *Not only is land speculation unnecessary, but it is harm-*

*ful to mankind and retards the progress of civilization.\**

Ownership of land is simply a privilege which permits the owner to take from producers without giving anything in return. When land is either sold or rented, that which is really sold or rented is an opportunity to work. The withholding of land from use means the withholding of potential jobs, and the price which will be charged for these opportunities to work will be "all the traffic will bear"—all above what producers could make working for themselves on the best land free to them; or, where there is no more free land, all above a subsistence level.

Our civilization is based on the giving of service for

\*Are the harmful results of speculation in land in any way paralleled by the results of speculation in labor products? By no means! Given free competition, any ill effects from speculation in labor products must be *very* temporary. If speculation in any given labor product raises its price, this increased price will attract others to the making or the raising of that article; and this increased production, with free competition in marketing it, will bring the price back to a normal level. Then too, wealth begins to deteriorate as soon as produced. If it is not sold after being produced (often very soon after) it tends to become worthless; therefore speculation in a labor product can raise its price only for a comparatively short time—until competitors can bring similar goods, or other goods which will answer the same purpose, into the market. And, if consumers refuse to buy at the higher prices set by the speculator, even this temporary advantage is lost to him.

On the contrary, land is a fixed quantity. When *its* price advances, no one can bring the price down again by producing more land. Nor does land need to be sold at any particular time, for it does not deteriorate while being held out of use—its value may increase even while unused. Customers may refuse to buy a labor product when they believe its price is too high; but Labor cannot refuse to use land. If mankind is to continue to exist, it must use land, however high its price may be.

Therefore any hardship caused by speculation in labor products must be trivial in comparison with the hardships caused by speculation in land.

service. The more fully this principle is observed in any community, the higher the civilization in that community. When we buy an article of wealth, we exchange the results of our labor for the results of the labor of the one, or the many, who produced the article we buy. We exchange product for product and buyer and seller are benefited. But when we buy or rent land from Smith or Jones we give up the results of our labor without getting the result of the labor of another in return. Instead of benefiting by the transaction we are impoverished to the extent of the rent we pay while the landowner, to the same extent, is benefited without working. Here, instead of there being given service for service, there is service (not, of course, "personal service") given by one party but none by the other.

There is a very general impression that it is the capitalist who receives most of the benefits which come from material progress; the capitalist is blamed for low wages and unemployment; and our present industrial system often is called "capitalistic" in scorn and condemnation. But consider: the only return received by a capitalist, as a capitalist, above replacement of his capital, is interest. If under the present system, increased population, improved machinery, or anything else, were to make it possible to produce twice as much as illustrated in diagram 14, would the increase go to the capitalist? Absolutely not! Nor to Labor (which, to increase its wages, borrows capital at market rates). Practically the whole increase would go to the land-owner, because the rental and selling value of land would increase. See diagram 15.

This will be found to be true of practically every improvement made in society. If a new road is built, interest on capital does not increase, but land values do;

new schools or parks do not raise the interest rate; they increase land values. If a town improves its lighting, or police, or fire department, if it installs water, gas, sewers, or any other improvement, it is land values which rise and not interest rates. If a new factory moves to a town, or if a factory now there enlarges its plant,

$$\text{Wages } 6 \times 10 = 60$$

200	160	120	80	40	10
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$$\text{Rent } 190 + 150 + 110 + 70 + 30 = 550$$

No. 15

or by improved methods increases production, it is not the interest rate in that locality which rises, but the rents. If oil is discovered, or any other natural resource is made available to man, land values rise but not the return on capital. Thus we see that it is not the capitalist who gets the benefits of material progress—these go to those who own the land.

So long as the distinction between capital and land is not clearly recognized, it will not, cannot, be seen that the power given by the ownership of capital is very slight, while the power given by the ownership of land is exceedingly great. It is true that the same individual or corporation may be, and often is, both capitalist and land-owner; which fact is largely responsible for the confusion. Often when this economically dual individual or corporation is charged with exploiting Labor, he, or it, is denounced in the minds of the public, and in the press, as a greedy capitalist; but the power to exploit Labor resides in the ownership of land, not in the ownership of capital.

Though all the above is true, it is not proper to condemn the individual land-owners themselves who speculate in land. Land is not held out of use in order to oppress Labor. Land is held out of use for the purpose of making a profit. Few land-owners, themselves, realize that the system which permits them to profit from land holding is harmful. They were born into and brought up in the system and it does not occur to them, nor to anyone else, that the system is anything but quite proper, or that a better one is possible. The blame for the harm done by our present system cannot be laid on particular individuals. All are joined in sharing the blame because it is our laws and institutions which permit and condone the system, and which even compel ownership of land if the user is to retain for himself all he produces from the land. So long as the system itself is continued, society would not be benefited one iota if present land-owners were to abandon, or turn over to others, all the land they, themselves, were not using. This would simply mean that a new set of land-owners would take the place of the old, and thus there would be "a change but no relief." This is not the way to meet the problem. It cannot be solved by individual action; the system itself must be changed.

When we realize that so much of the increased production which material progress makes possible does not go to Labor as wages, nor to Capital as interest, but is taken as rent for land; when we realize that the high prices charged for the better grades of land either prevent producers from using these lands or take from them, in rent, much of what they produce there; then we will realize that the real antagonism in our present economic system is not between Capital on the one hand and



Labor on the other, but, instead, is between Labor and Capital together on the one side and, on the other, a system which permits one individual to charge another for the use of the earth.

### QUESTIONS FOR DISCUSSION

- 1—If wages are determined by what a man can make working for himself on the best land free to him, why should wages vary as between individuals and between occupations at any given time on any given grade of land?
- 2—Is it the proprietor in any business who really employs the people working with him in that business? If not, who does?
- 3—In economics, how would one class a "middleman"? Is he a wealth producer or a parasite? If he be a wealth producer, how does he produce wealth? If he makes a profit, of what does it consist?
- 4—Can any regulation by government as to minimum or maximum wages be effectively enforced? If not, why not?
- 5—Where do we find the greatest wealth—in densely populated or in sparsely populated districts? Why?
- 6—Where do we find the greatest poverty—in densely populated or in sparsely populated districts? Is it natural for an increased population to increase poverty or to diminish it? Why?
- 7—In 1914 over one million immigrants arrived in this country. Did their coming make jobs more plentiful or scarcer for the people already here? Why?
- 8—A machine is invented which makes it possible to grind ten tons of flour by the same labor and in the same time as formerly were required to grind one ton. Will the use of this machine have any effect on the

shoe trade? If so, would the effect be any different today from what it would be if there were no land held out of use?

- 9—Supposing it were possible, what would be the effect on wages if machines were so perfected as to need no labor to operate them, and if
- (a) there were plenty of free land, or
  - (b) all land were owned by a few men?
- 10—What is it that causes a normal rise in land prices? What causes the rise in the time of a land boom?
- 11—Would a speculative rise in the price of wheat lead to an increase in wheat production? Why? Would a speculative rise in the price of wheat lands lead to an increase in wheat production? Why?
- 12—What causes commodity prices to rise or to fall? Are the results of these causes beneficial or harmful to society? Why?
- 13—Would the effect on production and wages be different if instead of one man, or one corporation holding a million acres idle, each of a million men held one acre idle? Why?

LESSON

V

DEPRESSIONS AND THEIR CAUSE

*"Landlords are, perhaps, the only great body of men whose interest is diametrically opposed to the interests of the nation."*—BUCKLE in "Fragment on the Rise of Agriculture."

LET US NOW CONSIDER THAT DISEASE OF SOCIETY usually referred to as a "depression" or "hard times." All will agree that during a depression society is sick; few, however, realize that a depression is but an acute phase of a chronic condition. Few of those who suffer because of a depression connect their suffering with anything which occurred during the better times which preceded it—their chief concern is that something, anything, be done to help them.

In this, society is much like an individual. He may be uncomfortable most of the time; so long, however, as he can keep going he will not stop to look for the cause of his trouble. But when he is flat on his back, then he wants to be cured immediately. Sometimes a cure is possible, sometimes not.

Society can exist, has existed, for a long time, with its economic system out of adjustment, gradually getting worse and worse; but the time comes with society, as with the individual, when, if this maladjustment is not

remedied, the form of society then existing, possibly even the then existing civilization itself, may be destroyed. This has already occurred many times in the world's history.

Depressions then, bad as they are and however much they cost, are not wholly unmixed evils. They call attention to the fact that something is radically wrong with our economic system, and once this is realized, thoughtful people will try to find the cause. To locate the cause, one could take any symptom of any depression, and by tracing it back to its beginning, would find there the cause of all depressions.

One could start anywhere. Suppose, for instance, one were to ask a business man to name the first symptom he noted of an approaching depression. Probably he would mention slow sales. Slow sales, if continued for any length of time, will make it difficult for the merchant to pay his bills and running expenses; soon he must discharge some employees, and often the end is mortgage foreclosure and business failure.

But why should consumers begin to buy less than formerly, and thus cause the merchant's reduction in sales? At no time do customers have everything they want, yet, during a depression, millions do buy less than formerly. A man makes one suit of clothes suffice where before he had two; people buy cheaper cuts of meat instead of porterhouse; they move out of larger houses into smaller houses, or go to live with relatives; and many are glad to get food, clothing and shelter of any kind—even as charity.

Seldom do people reduce their standard of living because they wish to do so; they do it only when they must—because they can no longer buy the things they would

like to have. When a depression is long continued, purchases may be contracted to bare necessities; and often too, when the pocketbook has become very much flattened, many things formerly considered necessities become luxuries.

Therefore we must go back another step in our inquiry and ask: "What is it that flattens the pocketbook?" When one goes to a store to buy, what is it he spends? That which John Smith takes from his pocket is not only a dollar bill. That bill is an evidence to the world that so much labor has been performed and a given amount of wealth produced; and John Smith exchanges this evidence of labor performed for the things he wants which have been produced by someone else. When he has many of these evidences of labor performed, he can buy many things and the merchant's sales are brisk; when he has few evidences of labor performed, he buys little and sales are slow; when he has no evidences of labor performed, he does not buy at all.

This condition, then, of slowing sales, or no sales at all, means that the customer has less buying power. This lowered buying power is caused, primarily, by lower wages, or by partial or complete unemployment.

But if John Smith, the customer, has been making things to satisfy the desires of other people as well as his own, and these desires are not fully satisfied, why does John Smith stop working?

We have established that it is Labor which produces all wealth, but that Labor cannot create the materials out of which to make wealth. Labor must take a bit of land, and with, or without, using capital, fashion this bit of land into something to satisfy some human desire. This being true, the two necessary factors in production

are land and labor. If, then, John Smith is able to work and willing to work, but out of work, the reason must be that

- 1—Everyone has all he wants of the things John Smith can make; or
- 2—They who want the things John Smith can make are unable to buy; or
- 3—There is something which prevents John Smith from making these things.

We know there are unsatisfied desires everywhere; therefore it must be that John Smith does not have access to the necessary land out of which to make things, or that they who desire these things lack access to land out of which to make other things with which to buy.

Whenever and wherever we find men involuntarily out of work, there also we will find land held out of use. Not that the owner deliberately decides that any given piece of land shall not be used, but the price asked for the idle land is so high that Labor cannot pay its price and have an adequate return left for itself. Producers will use land until the net returns they can get from it decline to an amount on which they are not willing to live. When this point is passed they will not use that land at all. Reason tells us and investigation confirms the fact that for a depression to develop, first must come high land prices, then lowering wages, then unemployment; these, in turn, causing lack of purchasing power, which slows up the merchant's sales.

This condition we have with us to a greater or less extent all the time. Even in "good times" the number of unemployed is appalling; but occasionally the condition blazes up acutely, and then, instead of numbering our

unemployed by the thousands, we number them by the millions. This condition is called a depression. The cause of both the acute and the chronic condition is, as shown in Lesson IV, land speculation. Before a depression, land speculation is carried to an extreme pitch. This fact has been recognized by many observers, who, however, fail to recognize in it the relation of cause and effect. For instance, just before the crash in 1929, an article in the Magazine of Wall Street said:

"Every panic in our country has been preceded by an orgy of land speculation—the culmination of every period of prosperity is a land boom, and then comes a panic."

Therefore, we must go back still another step and inquire why these periods, which, by comparison, are called periods of prosperity, end in land booms? And we find that these waves of land speculation always have as their starting point something which should benefit the whole community. It may be an increased population; it may be better transportation; it may be the development of a new business, such as the manufacture of automobiles or the building of the railroads; or, it may be general industrial progress. Always it is something which, if allowed to work unhampered, would make living easier and better for the whole community because it is something which increases production.

For a time, many may get some benefit from this improvement, whatever it may be, and then we have what is called "prosperity"; but soon the increased productivity of land, caused by any one of these things, increases the demand for land, and land prices rise. Eventually they become so high that it will take much or all of the increased product made possible by the im-

provement to pay these higher land prices. When this point is reached, it will be the land-owners and not the producers who are getting most, if not all, of the pecuniary benefits from the improvement.

When the increase in productivity is rapid, then land speculation becomes feverish. Many rush in to buy without much consideration of what the land will produce, only fearing they may lose a chance to make a profit. Land values then will rise to a point where Labor cannot pay the prices demanded and continue to live at the old standard. As Labor is obliged to pay more and more for land, whether to buy or to rent, its ability to purchase other things must decline correspondingly, or even cease entirely, and we have a depression. The depression will cover as wide an area as was affected by the orgy of land speculation.

We can see that this must be so if we will remember that the natural rent of land is fixed by its excess of productivity over what the same labor could produce from the poorest land in use (see Lesson II). Speculative land prices often are based on what the owner hopes the land will be able to produce at some time in the *future*, but the returns which Labor, with or without the aid of capital, can get from any land depend wholly on its *present* productivity. When from this present product must be subtracted a rent based on future hoped-for returns, then the portion of the product left for actual producers becomes disastrously small—less than they are willing to live on. This must result in unemployment, and, when widespread, in a depression, which will continue until conditions again are such as will yield producers a living.



The following history of Chicago's land values demonstrates this sequence very well.\*

Chicago covers 211 square miles. The price of any land in that district in 1830 was \$1.25 an acre.

1830—Land value of the entire area now covered by Chicago, \$168,800.

1832—Chicago Canal authorized as a transportation link in time of war. Those who had followed the history of the Erie Canal, and the increase of land value it caused, induced the Federal Government to construct the Chicago Canal, then bought land along its proposed course. This land was advertised and offered for sale, and a land boom started. Chicago's population, 500.

1836—Land values reached \$10,500,000. In conditions such as existed at that time in that place, such land values made profitable use of the land impossible. Population, 4,000.

*Then came the first major depression*

1842—Land values had shrunk to \$1,400,000. At this price the land could be used and leave to Labor an adequate return, therefore business began to improve.

1848—Chicago Canal opened. In 1848 Chicago had no railways, but by 1854 it was the railroad center of the West. Plank roads, street lighting and sewers were built by the city and land values boomed again. Population about 80,000.

1856—Land values had increased to \$126,000,000. Again Labor could not pay these prices and have a living left for itself.

\*Figures are taken from "One Hundred Years of Land Values in Chicago" by Homer Hoyt.

*Then came the second major depression*

- 1858—There had been many bank and 15 railroad failures; there was great unemployment everywhere, and land values had shrunk enormously;
- 1860–1865—Civil War. By 1864, 96 bank failures had occurred in Illinois, but the European need for wheat, and the demand caused by the Civil War for wheat and meat, sent hog, corn and wheat shipments and prices up, and land prices again began to increase sharply;
- 1871—Chicago fire and post-war boom. Population 187,000. Many parks and boulevards built by the city. New building construction in seven years \$76,000,000.
- 1873—Land values had increased to \$575,000,000.

*Then came the third major depression*

- 1876–21 bank failures in 4 years. Land values had dropped to \$250,000,000., rents 30% lower than at the peak.
- 1884–1890—Population in 1884, 600,000. Building of "skyscrapers" began; many new manufacturing enterprises and 7 new railroads built. World's Fair projected and wild land speculation;
- 1892—Land values estimated to be \$1,000,000,000.

*Then came the fourth major depression*

- 1909—Land values, after many industrial failures and great unemployment, shrank to a point only half as high as in 1890, though the population of Chicago was twice as great. Business began to improve and unemployment to decrease.
- 1916—World War I, followed by post-war boom. Much apartment construction. Enormous American and European expenditures for food and war materials

further stimulated business. Land values in 1921 \$2,000,000,000., and still rising. Farm values began to decline in 1921, and the farmers, driven to the cities, increased land values there by increasing the demand for land.

1928—Land values reached \$5,000,000,000., with many records of increases of 1,000% between 1915 and 1928. Even with our modern industrial methods and ability, Labor could not pay this price for land and continue to live at its old standard.

1929 *Then came the fifth major depression*

1932—Foreclosure suits in Chicago involved more than \$2,000,000,000 of land value; apartment rents were 50% of those in 1922, there had been 30 bank failures, also great unemployment and all the other symptoms of a great depression.

This same sequence of industrial progress followed by land speculation, which in turn was followed by depressions, was not limited to Chicago during these hundred years. A similar picture could be drawn of conditions in New York, Philadelphia, New Orleans, or any other growing city.

The worst and most widespread depressions are those which come within a few years after a war. Usually as soon as an improvement is suggested in a community, land speculation begins and even before the improvement takes place, land values may be greatly increased.

During a war of any duration, great amounts of certain commodities are needed for the armies, and frequently civilians are restricted in their use of these commodities (as was true, during World War I, of white sugar, white flour, wool, butter, hard coal, hardware and

many other items), so that a great unsatisfied demand develops for these things which the people are not permitted to buy. As soon as peace is restored, farms and factories begin to hum, growing and making these desired things for the civilians and the returning soldiers. Production increases quickly in almost every line, because the lack of buying in such cases is not caused by lack of purchasing power, but by government restrictions.

For a short time, some, or most, of this increased production may go to Labor (as it did in 1919 when we had our "silk shirt era"). This can occur because people in general do not realize that the increased production which will follow the close of the war will raise land values, and thus, speculation in land does not precede the closing of a war as it precedes most other improvements. The land speculators are caught napping and Labor gets some of the benefits of industrial progress; but they do not nap for long. Very quickly this increased production stimulates demand for land and starts a land boom.

Eventually the demand for commodities lessens; not because everyone has everything he wants, but because, after paying the higher land prices consumers do not have enough left to buy the labor products they would like to have. When the demand for goods slows up and it is not possible for employers to continue to pay both the high rents and high wages, wages decline and later, in many instances, cannot be paid at all. Then the army of the unemployed forms rapidly.

Also, during and following a war, there is often an additional factor which helps to push up land values excessively, i.e., the pegging, by government decree, of prices for various commodities at levels higher than free

competition would set. The prices of these commodities cannot fall with increased production, as it would be natural for them to do. These artificially high prices for commodities have the effect of carrying land prices far beyond the point they otherwise would reach, and of bringing poorer grades of land into use than would be used if there were no artificial pegging of prices.

To see how this operated on the value of wheat lands in the United States after World War I, note the following diagrams. In No. 16, the best land is illustrated as producing 100 bushels of wheat with a given amount of labor of a given efficiency; the second grade, 75 bushels with the same labor, etc. Let us suppose that 25 for a given amount of labor is the lowest point at which Labor is willing to live.

Wages	25	25	25	25
	100	75	50	25
Rent	75	50	25	0

No. 16

(References to money values usually are confusing in discussions of economic subjects, but for this illustration we must use money values to show actual conditions.) With wheat at \$1.00 a bushel, which was a good average return to the farmer before World War I, the best land in diagram 16 would yield \$100.00 for a given amount of labor, and its rent would be \$75.00; the second grade land would yield \$75.00, and its rent would be \$50.00; and so on. Wages on all grades would be \$25.00, for a given grade of labor.

Now came World War I, and its aftermath. In order

to induce farmers to keep up the production of wheat to satisfy both foreign and domestic demands, the price of wheat was pegged by the government at \$2.50 a bushel or more. With wheat at this price the possible returns from these lands would be \$250.00, \$187.50, \$125.00, and \$62.50 respectively (as in No. 17). Wages

Wages	\$62.50	\$62.50	\$62.50	\$62.50
	\$250.00	\$187.50	\$125.00	\$62.50
	100	75	50	25
Rent	\$187.50	\$125.00	\$ 62.50	

No. 17

on all grades of land would be \$62.50—what a man could produce on the poorest land in use. But the returning soldiers, and others, were seeking jobs, and were willing to accept a return of \$25.00, for the same amount of labor, if they must, in order to get these jobs; therefore production was pushed out to the 10 land. Even though only 10 bushels of wheat could be raised on this land with the same labor as would produce 100 bushels on the best land, still, with wheat at \$2.50 a bushel, Labor here could make \$25.00 for itself by exerting this same amount of labor. And many, rather than be idle, began using this 10 land for wheat raising. (Much of the land in what is now called "the dust bowl" was good grazing land but poor wheat land. It should never have been plowed, but it was plowed to raise wheat at these high prices.)

When this poorer land was brought into use wages dropped to the old level, 25. The rents of these various grades of land were now \$225.00, \$162.50, \$100.00, and \$37.50 respectively, as in No. 18, and their selling

prices, of course, increased accordingly. Indeed, as the result of the land speculation which inevitably arose, land

Wages	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00
	\$250.00	\$187.50	\$125.00	\$62.50	\$25.00
	100	75	50	25	10
Rent	\$225.00	\$162.50	\$100.00	\$37.50	0

No. 18

values were pushed still higher, until they bore little relation to productivity, being based, instead, on the mere hope of reselling at a higher price. In some mid-western states the prices of wheat lands and corn lands, which before the war were \$50.00 an acre, rose to over \$500.00 an acre. The diagrams suggest an average rise to only three and a half times former values; actually, in many instances, they rose ten times former prices.

Now came the ending of the pegged price for wheat, and wheat sank back to \$1.00 a bushel or less. What resulted? They who were raising wheat on the 10 land found that with wheat selling at \$1.00 a bushel they could get but \$10.00 for the same labor which had been yielding \$25.00. But 25 was the minimum at which they were willing to live; therefore, they had to give up their farms and find employment elsewhere—if they could. In the meantime they were out of work and could not buy. They could not go back to the 25 land because, with wheat at \$1.00 a bushel, they could not raise enough there even to pay the rent. For the same reason, those renting the 25 land had to abandon it and join those from the 10 land seeking employment. (The chief cause of the great drift of people from the farms to the cities during the early twenties was the high price of

farm lands. Between 1920 and 1930, cities in the United States having more than 30,000 people, increased more than 9,000,000 in population.)

When the price of wheat had fallen from \$2.50 back to \$1.00 a bushel, those farmers who owned their land free and clear, and who had not contracted debts during the boom years, were able to weather the storm without much suffering. It may have been necessary for them to lower their standard of living, but the decline in wheat prices did not necessarily mean complete disaster for them. They, however, who were renting their farms, or whose farms had been purchased at exorbitant prices but were not fully paid for, suffered the full effects of the increased land prices on the one hand and the decreased wheat prices on the other. Not only did they lose their farms but they were not able to buy the products of factories; sales slowed up all along the line; factory employees had to be discharged and the army of the unemployed grew larger and larger as industry after industry became affected. *Every worker who becomes unemployed thereby tends to cause the unemployment of others because of his lack of purchasing power.*

This series of events was not confined to wheat lands. The effect was worse where the prices of commodities had been pegged, as with wheat; but the same thing occurred to a greater or less extent in all the basic industries. Consider copper: because the demand for this metal during the war was greater than the supply, copper rose from 13¢ a pound in 1914 to 35¢ in 1917 (the price was stabilized in the fall of 1917 at 23½¢). There are in the United States many low grade copper deposits which can be worked profitably only when copper is selling at 10¢, 12¢, 15¢ a pound, or more. With copper



selling at 30¢ a pound, these low grade copper deposits could be, and were, profitably worked, just as the poorer grade wheat lands were brought into use by the price of \$2.50 for wheat. But when, after the war, demand for copper declined and its price fell to 5¢ a pound, only the richest deposits could be profitably worked. The low grade mines had to be closed, and the miners, being thrown out of work, were forced into the army of the unemployed who could not buy and whose inability to buy still further increased business failures.

The same story was true of cattle, timber, iron, coal, oil and all other basic industries. All other industries are based on the so-called "extractive industries"; that is, those in which Labor produces wealth by applying itself directly to the land, such as agriculture, mining, fishing, lumbering, cattle raising, etc. There can be no flour mills or bakeries until the farmers have raised the grain. There can be no building of homes, bridges, or railroads, until the miners and lumbermen have done their work, and so on. Increase the value of land so that production in any one of these basic industries becomes unprofitable, and all the industries based on it must suffer.

Here is another view of the picture. During the boom years many mines, farms and other businesses changed hands many times, at advancing prices, and were paid for, at least partially, by money borrowed from the banks on mortgage. These mortgages seemed safe enough when based on the then current land and commodity prices. But commodity prices fell. If a farmer, for instance, must pay a return on a mortgage based on \$500.00 an acre for his land after the value of his crop has been reduced to a point far below that which fixed the land price at \$500.00, there is little he can do but

surrender his farm to the mortgagee. This is what occurred in innumerable instances.\*

The price of wheat increased from 85¢ a bushel in July, 1914, to \$1.28 a bushel in December, 1914, and \$2.65 in 1918. Farmers borrowed to increase acreage and the total farm debt rose from \$3,320,470,000. in 1910 to over \$11,000,000,000. in 1924, but the increase was much greater in those states where wheat and corn were the principal crops. For instance: the farm mortgage indebtedness in Iowa alone between 1910 and 1920 increased more than it did in the combined states of Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, New Jersey, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana and Arkansas. The farm mortgage indebted-

\*Inability of any considerable number of debtors to make payments, as agreed, either on mortgages or on debts contracted to buy commodities, will increase the severity of a depression and may even be the final factor in causing a depression. Yet this inability to repay debts is the natural result of our present economic system. The owners of land collect rent for its use. This means that Labor, out of its own resources, cannot buy that which it produces; because after paying its rent it has left to spend for itself only what it produces minus the rent.

If land-owners do not spend all the rent they receive, the excess accumulates and can be loaned to Labor to buy land, capital goods or consumer goods. With this loan Labor is able to buy a larger share of its product than it could without the loan, but it has burdened itself with a debt which it must repay and on which it must pay "interest." As this process continues it creates a widening gulf between the needs of the producer and his ability to pay for his needs—a gulf which may be bridged for a time by other borrowings, which must be made principally from land-owners, since they, as a class, are the only ones receiving a constantly increasing share of the wealth produced.

During the "prosperous" years the burden can be carried; but, as has been shown, such seasons of prosperity increase the demand for

ness in some of the other mid-western states increased almost as greatly. Since this farm mortgage indebtedness was incurred chiefly to pay for land at inflated values, can we wonder at the distress which overtook the farmers in the Mississippi Valley!

During the early days of the depression the banks often were blamed for refusing to lend money to farmers and to others in "legitimate businesses" who were thus in trouble. The truth is that many of these bankers did not have the money to lend. The people who had borrowed from them could not pay back what they had borrowed; and even though the banks took back the farms and other businesses when the amounts borrowed could not be repaid, they could not lend these farms and other businesses to those who wanted cash, nor could they sell them for anywhere near enough to get back the money loaned on them. In many instances,

land and cause land values and rents to rise, with disastrous results. For instance, if a business man pays one-fourth of his product as rent, and borrows back (from his own or some other landlord) one-half of this portion to use in his business, he may be able to meet his interest and repayment obligations so long as conditions stay as at the time he borrowed; but if rents rise, the payments on his debt will be more difficult to meet and additional borrowings may be made. At the same time, these higher land prices induced by the "prosperity" will reduce the buying power of his customers, unless they, too, borrow back a part of the rent they pay and thus pile up debts for themselves.

As this process continues a growing burden of debt and "interest" accumulates. The private appropriation of rent, which cuts down the net return to producers and thereby forces them to resort to borrowing, results in a credit expansion which will burst like a bubble when sufficient strain is applied by rising land prices—causing an acute condition of slower sales, lower wages and unemployment.

Even if land values were stationary (which they could not be, since the increased business made possible by the borrowings would increase demand for land and so cause land values to rise), this continually growing burden of debt must eventually cause bankruptcies.

many of the assets of the banks, as the saying is, became "frozen," so that the banks could not pay even their depositors in full, much less make new loans. Since the depositors could not get back their money to use in paying their own debts many of them, also, were forced into bankruptcy—because, though indirectly, of this same land speculation.

Thus in the end we had our series of bank failures, beginning of course with the weaker banks and those which had loaned the greater part of their assets on high priced land. But, since business is so interwoven in our modern society, the failure of a small town bank may easily be one of the last straws in causing the downfall of a large bank in New York or Chicago; which large bank has done its own share of lending on inflated land values and is having its own troubles from this cause. (Since stocks are not wealth but only represent the assets owned, the high stock prices in Wall Street preceding 1929 represented, chiefly, high land values of one sort or another, however obscure this fact may be.)

Bank failures, of course, may be caused by incompetency or by dishonesty, as are some failures in other fields, but probably most bank failures are caused by "frozen assets" of some kind; and more bank assets become "frozen" by the deflation of land values than by all other causes combined. If there were no speculative land value to deflate, probably there would be few bank failures. The bankers do not cause depressions; they are the victims of extreme land speculation, as are other business men.

If, when commodity prices fell to where they had been originally, land values had fallen at the same time (and as rapidly) to where they were before the rise took place,

we would have had no depression, because then wages and rent would not have changed relatively and purchasing power would have kept pace with prices. But land values do not fall until practically all other values have been deflated. In any contest between Labor and land-owners, the land-owners as a class can wait, but Labor starves. The land-owners may be *inconvenienced* by a prolonged struggle, but if the struggle be too prolonged Labor will be *destroyed*; therefore Labor must always be the first to yield and wages will always decline drastically before rents decline to any great extent. If any given land-owner must give up his land because he no longer can afford to carry it, another steps in to take his place; but a change of land-owners does not necessarily lower the price of land. The price will not decline until land-owners as a class begin to suffer through inability to pay the carrying charges on the land they hold.

Probably no one is more tenacious than a land speculator. This is so true that in the English language we have developed a phrase to fit his case; he is often referred to as being "land-poor," meaning that he will go without comforts, often without necessities, rather than sell his land at a price less than he had hoped to get for it. In the meantime the land is wholly or partially idle and those who might use it must resort to other land.

Still another view: when a depression begins it is not unusual for a business man, thinking the condition may be of short duration, to continue to produce, increasing his stock of unsold goods. Later, when he finds that his goods do not move, he offers inducements by lowering his prices, sometimes to cost or even less, in order to keep his business or factory going. But since so many customers are out of work and unable to buy, the increase

in unsold goods tends to glut the market—a condition which is often referred to as “overproduction.” Often it is foolishly contended that this so-called “overproduction” is the cause of a depression. If instead of referring to this condition as one of “overproduction,” it were called “underconsumption,” which it really is, the term used would suggest a more nearly accurate picture of the actual condition. It reflects nothing but lack of buying power on the part of consumers; and lack of buying power is always caused by unemployment or low wages. There could be no true overproduction until everyone had every material thing he desired.

As shown, the speculative rise in land values is the main cause of industrial depressions. The greater and more widespread the land boom before a given depression begins, the longer and more severe that depression will be, because the greater and more far-reaching will be the readjustments which must be made before it can be ended. All efforts to improve conditions, which efforts (even if not so intended) tend to bolster up sagging land prices, only prolong the depression. Unemployment will not decrease until Labor is again able to get at the land to employ itself. This condition may be brought about in any one of three ways:

*First*—Some new business or some advance in the arts and sciences may be developed which will increase production at a faster rate than land values increase. We often hear it said that a new industry pulled the country out of a depression, as the development of the automobile is credited with having overcome the depression of 1900. It is true that a new industry, if great enough, will help a country recover from a slump, because it will increase production; and, as shown in Lesson IV, the

benefits of improved methods and machinery are not limited to the industry they primarily affect. They start a wave of increased employment which ultimately reaches all industries.

If some new industry or improved method were to make it possible to produce 25 bushels of wheat from the land where 10 bushels had been produced before, and to increase the production from other wheat lands proportionately, then, even with wheat at \$1.00 a bushel, farmers again could work these poor wheat lands and live at 25 in spite of the high rents (this improvement would have raised the normal rent line up to the speculative rent line). This could continue until higher rents again outran production, which would occur soon or later.

*Second*—Wages and the standard of living may be lowered. This, of course, would be bad for the individual, for society and for civilization; but, nevertheless, after every depression, Labor is apt to find itself receiving a smaller share of what it produces than it did after the last preceding depression. Because of foreclosures, etc., land will have gravitated into fewer hands, and the number of those paying rent will be proportionately greater. Also, though land values decline after a depression, as our study of the history of land values in Chicago has shown, they do not decline to a point as low as they were at the end of the last preceding depression. If, when the price of wheat was no longer pegged and it declined to \$1.00, Labor had resigned itself to a wage of 10, it could have continued to work.

Such a reduction would bring the laborer very much nearer than now to the condition of the coolie class in China and India. But it is well to remember that the

trifling wages these coolies now get were forced on them by gradual reductions through many generations, as land holdings became more and more concentrated. Their civilizations are much older than ours; they have been through many more depressions than we; now they have reached a stage where it is almost impossible for them to sink lower. Their land ownership is so concentrated and their standard of living is so low that, to all intents and purposes, there is a constant depression. Even though the descent be a gradual and an intermittent one, and in spite of all efforts to combat it, Labor everywhere, including that in the United States, must eventually reach the coolie's standard if the same cause (our present land tenure system) is permitted to continue to operate. The factor of time is the only unknown factor.

*Third*—Land values may decline to a point which will leave Labor sufficient to live on after paying the rent. In diagrams 16 and 18, Labor had adjusted itself to a basic wage of 25, with the remainder of the product going as rent. If, following a depression, land values were to go back to a point which would leave the laborer 25 for himself after the rent had been paid, he could again become a consumer and buy as before. Then production would increase and we would have another period of so-called "prosperity."

What usually occurs is a combination of some two or all three of these forces: 1st, advances in the arts and sciences, or new inventions, will increase the production of wealth at a rate more rapid, for the time being, than the increase in land values; 2nd, Labor accepts a lower standard of living in order to get an opportunity to work at all; and 3rd, land values are drastically reduced. Then



Labor goes back to the land (not only to farm land, but to all kinds of land from which Labor produces wealth—mines, forests, town building sites, etc., etc.), business begins to revive, mills reopen, unemployment decreases, and industry continues on the upgrade until rents again become excessive. When that time comes another depression is not far off.

The only way to break into this vicious circle is to make it impossible for most of the benefits of industrial progress to go to the land-owners. If these benefits went to producers, purchasing power would not decline, and low wages and unemployment would not accompany progress.

QUESTIONS FOR DISCUSSION

- 1—If \$100,000. is to be spent in digging a drainage canal, will more or fewer men be given employment, in the country as a whole, if the canal be dug by hand instead of using the most efficient machinery? Why?
- 2—Is it correct to include land values when ascertaining the total wealth of a community? If so, why? If not, why not?
- 3—Is it reasonable to believe that the net average returns to the farmer are any higher, or any lower, than the net average return to the town worker of the same ability who puts forth the same effort? Why?
- 4—If all investments in land should prove unprofitable, would that fact conflict with the claim that the holding of land out of use, lowers wages? Is the effect on production, or on wages, any different when the land speculator gains, from what it is when he loses by his operation?
- 5—What part of the sum of all wages earned in producing an article, from its beginning on the land until it

reaches the final consumer, is included in its price to the consumer? Is this also true of all rents paid throughout the production of the same article? If so, why? If not, why not?

- 6—Is it within the power of the land-owner to fix the amount he charges a tenant or a purchaser? If not, what does fix it? What limits the advance to which land values can be carried by speculation?
- 7—A man “corners” the wheat market. Does he thereby harm society? If so, how? If not, why not? Could he continue such a “corner” for any great length of time? Why?
- 8—If, after a depression, Labor adjusts itself to receiving a smaller portion of its product, what effect will this have on land values? Would the result be any different if Labor, at any other time, should agree to accept a smaller share of its product?
- 9—Could an industrial depression occur if Labor at all times had free access to land? Explain how and why.
- 10—What effect does a depression have on the condition of those unemployed before the depression began?
- 11—Can increased spending by the government increase production and help to cure a depression?
- 12—Is saving (instead of spending) by individuals or corporations ever the cause of a depression? If so, why? If not, why not?

LESSON

VI

SUGGESTED REMEDIES

*"There are a thousand men hacking at the branches of evil to one who is striking at the root."*—THOREAU in "Walden."

*"To be willing to perform our duty is the moral part —to know how to perform it, the intellectual part."*—BUCKLE in "History of Civilization."

UP TO THIS POINT WE HAVE BEEN WORKING OUT definitions of economic terms, demonstrating the natural laws of rent and wages and showing how interference with the operation of these laws by human agencies is the cause of the economic ills of society. From this point on we will discuss remedies. But before searching for a true remedy, it may be well to discuss, briefly, some of the many other suggestions which have been proposed as remedies for low wages, unemployment and undeserved poverty.

I—INCREASED EDUCATION, IMPROVED HABITS OF  
INDUSTRY AND THRIFT

It is contended by many that if a man be poor it is largely his own fault; if he would be more thrifty or more industrious, or if he would study and prepare

himself for a better job, many a man who is now poor could make of himself what the world calls a "success." Often this may be true when applied to individual cases, but to hope by this method to raise general wages or to improve general living conditions is absolutely illogical.

To see why this is so we need only remember that as soon as land has acquired any exchange value at all, wages are not determined by what Labor produces, but by what is left to Labor after the rent is paid.

This being true, so long as the best free land is land of low productivity, no amount of education, or industry, can raise general wages, or the general standard of living. If the exceptional man does have a better education, or works longer or more efficiently than his fellows, then he may be better able than they to get, or to keep, employment. He may indeed be able to command a higher wage for the time being (a man who does more work for the same money than the man he displaces is working for lower wages, measured by the energy expended). But if the average man then were to improve his education or increase his exertions until these equaled those of the exceptional man, then this increased education or industry would become the average and would be demanded of all in that field. The wages then paid for this increased efficiency would not be those previously paid to the exceptional man, but no more than those paid to average men. Then, in order to command a higher than average wage, one would need to get a still better education, or to work still harder.

To illustrate: only a few generations ago (and it is still true in some countries) the man who could read and write was the exception, and because of this he could command better than average wages; but today

when practically everyone in the United States can read and write, this knowledge brings no premium. Indeed, today, if a man cannot read and write, it is usually impossible for him to get any but the most menial employment. The growing demand that college degrees be held by those employed in many fields shows the tendency for a better education to become a general requirement.

As for practicing greater thrift: it is true that any individual who saves and spends thoughtfully and carefully will be able to make his wages go farther than will the wages of the man who gives little thought to his spending. Illustrations abound where, of two individuals with practically the same responsibilities, each receiving the same wage, one is always in debt while the other may be able to live well because of carefully planned spending. But it is true of thrift, as it is true of education and industry, that if the average man planned his spending so that he could live as well as the exceptional man on the same wage, then the wages of all would be proportionately reduced.

This is true because men out of work bidding against one another for employment, will keep pushing wages down to the level of bare subsistence when there is no more free land on which they can produce a living above the subsistence level. If the average man found that he could live as well as at present on a lower wage, he would not hesitate to offer to work for this lower wage if it were necessary in order to get, or to keep, a job. If our people should learn to live on as little as does the Chinese or the Indian coolie, their wages would eventually decline to the level of his, regardless of their education, or industry, or thrift. Even if some new ma-

chine or method should make it possible for them to produce many times as much as before, the increased production would eventually raise land values without increasing wages (as shown in Lesson IV).

It is not implied by the above that education, industry and thrift are bad for the individual—they are necessary for the building of human character and happiness; but it is none the less true, that, in present conditions, and so long as one must bid against another for employment, wages in general cannot be raised by increased education, increased industry or increased thrift. When everyone has an equal opportunity with all of his fellows to make a living—when there are more jobs than men—then one's knowledge, industry and skill will measure one's success. Then, if everyone should increase his education, industry or thrift up to that of the exceptional man, this would not be accompanied by a relative lowering of wages. Then everyone would be able to keep for himself all he might produce, and as material progress increased, wages would tend to rise. It is the necessity of men bidding against one another for employment that inevitably forces wages down.

#### 2—TARIFFS

One of the questions much in the public mind is the tariff. Will the people themselves of any country benefit by reciprocal trade treaties, or by tariff agreements?

First, what is meant by a tariff? Tariffs are taxes on goods brought into or taken out of a country: i.e., tariffs are taxes imposed on trade with other countries, or other communities.

Why should the people of one country wish to trade

with people in another country? Always man is trying to satisfy his desires with the least possible exertion. The only motive anyone has for trading with another (in his own community or country, or elsewhere) is, in that way, to get goods cheaper, i.e., with the expenditure of less effort than would be necessary if he, himself, made those goods.

If, in some foreign country, because of soil, climate, economic conditions, or for any other reason, some article can be produced more cheaply than we can produce it here, it naturally follows that it will be to our advantage to buy that thing in that country rather than to make it or to raise it for ourselves. If, at the same time, we sell to the people of that country something we can produce more cheaply than they, both parties to the transaction will be benefited; for, by making the exchange, the wealth of both countries will be increased.

Specialization in and exchange between countries will increase production and wages in the same way they increase production among individuals in the same country. Suppose that, in the United States, with a given amount of labor it were possible to produce twelve pairs of shoes of a given quality each week, but only two sets of a given quality of dishes, while in France these figures were reversed. The result of two weeks of work in the United States would be twelve pairs of shoes plus two sets of dishes; in France the two weeks' work would yield two pairs of shoes and twelve sets of dishes. If, in each country, the workers will spend their time in making the thing for which their country is best fitted, and then exchange the result of a week's work for the result of a week's work, instead of each having twelve of one and two of the other at the end of two weeks, each would

have twelve pairs of shoes and twelve sets of dishes, and without anyone working any harder or longer than before.

All of this seems so logical as only to need stating to be recognized; yet when foreign markets are discussed, many of our newspapers, politicians and people in general contend that, for some vague reason, it is to our advantage to send goods out of our country, but to our disadvantage to bring goods in. They contend that it is desirable for our people to make for themselves everything they want, so far as is possible, at no matter what cost. They contend that to buy goods made in a country with a lower wage scale must bring our own wages down. All of these contentions are false.

The belief that it is in some way harmful for us to buy from other countries is so embedded in the mind of the average man that in order to keep foreign goods out we place import taxes on them (thus far, we in the United States have not resorted to export taxes). Many believe that if all tariffs were abolished, disaster would certainly follow for our workers and for business in general.

Let us see. The effect, in fact the object, of a tariff on any commodity is to raise the price of that commodity so that it can no longer be brought from abroad and sold here cheaper than it can be made and sold here; the argument being that making it more difficult for people to buy abroad will force them to buy here. This, it is contended, will stimulate home industries, and thus more men will be employed and wages will be kept up—some even argue that tariffs will increase wages.

But we have seen (in Lesson II) that wages are not fixed by import duties; that wages are fixed by the margin of production; or, if there be no more free land, that



wages are fixed by the subsistence level; but neither the margin of production nor the subsistence level can be changed by tariff regulations. Very little investigation is required to convince one that wages are no higher in those industries which are "protected" by a tariff than they are in those industries not so "protected." The United States admits bananas without a tariff, but lemons carry quite a high tariff. If one will go to a commission house which specializes in importing bananas and inquire about wages, then will cross the street to a commission house which specializes in importing lemons, it will be found that wages for the same work are practically, if not exactly, the same in both places. Much of the sugar we buy from Cuba is sent to this country to be refined. If one will go to a refinery handling Cuban sugar, which is subject to a stiff tariff, it will be found that wages there are the same as in another refinery processing only domestic sugar.

A tariff will not raise wages in a protected industry, nor will it raise general wages, nor would a lowering of the tariff reduce wages. The price of goods is raised by a tariff—that is the object of a tariff; but any increase in the price of goods without a corresponding increase in wages only decreases the amount of goods these wages will buy. Instead, then, of raising the standard of living, tariffs must lower it for the average man.

Nor do tariffs increase employment; to the contrary, tariffs decrease employment.

The imposition of a tariff is sometimes urged in order to induce the establishment of a new industry. Much is said of the new opportunities for Labor the new industry will offer, it being assumed that the men employed in this new industry will be unemployed if it is not estab-

lished. This entirely ignores the fact that goods purchased abroad are really purchased with goods made here, and that the more goods we purchase abroad the more goods we will need to make here to pay for the things purchased abroad. If the cost of a commodity purchased abroad is lower than the cost of the same thing produced here, then more of that thing will be purchased than if it is made here; and whenever an article is purchased abroad we necessarily set to work some miner, farmer, factory worker, or someone else, making something with which to pay for it.

When we admitted Cuban sugar practically free, our exports to Cuba amounted to about \$500,000,000. annually (in 1920 they were \$515,209,000.). When a high tariff was placed on Cuban sugar these exports dropped to less than \$100,000,000. (in 1933 they were \$25,093,000.). And the people who produced the other \$400,000,000. of goods which we formerly sent to Cuba had to find other work or be unemployed.

1920 Exports to Cuba \$515,209,000. Imports from Cuba \$721,537,000.

1933 Exports to Cuba \$25,093,000. Imports from Cuba \$58,437,000.

Inquiry will show that when we buy from other nations we also sell to them; when we stop buying from them, our own sales to them correspondingly decline.

The effect of tariffs, then, is to make economic conditions worse instead of better for the average man. They raise the cost of the things he buys without raising his wages; and at the same time they lessen his opportunities to get employment by decreasing the demand for goods.

Do tariffs benefit the business man? Not unless he has

a monopoly of the thing upon which the tariff is imposed. Whom then do they benefit? The chief benefit of a tariff goes to those who own the land on which is produced the article which carries the tariff. To illustrate: there are certain lands in Florida and Louisiana where sugar cane can be made to grow—not so prolifically by any means as it will grow in Cuba; but at a greater cost of time and effort, sugar cane can be raised there. Since the cost of producing the sugar is higher, its price must also be higher than that of the imported sugar, else its producers will lose. But consumers will not pay 5¢ a pound for domestic sugar if they can get the same quality, imported, for 4¢; hence these Louisiana and Florida lands cannot be used for raising sugar so long as the Cuban sugar is imported free of duty.

Therefore the owners of the Louisiana and Florida lands, together with those who owned the beet sugar lands of the West, agitated for and succeeded in having a tariff placed on sugar (obviously no one else was interested in doing this, for people do not petition for something which will raise the price of the goods they buy—it is always the seller who is interested in raising prices). This raised the price of sugar to a point at which it can be produced profitably in the United States, and much of the formerly imported Cuban sugar is kept out of the country.

What has resulted? The wages of those who previously worked on these lands (formerly otherwise used, but now devoted to the production of sugar) were not increased when the tariff was imposed, nor were the wages of those who worked in the refineries, nor were the profits of the business men who handled the sugar (though the “middleman” is very apt to be blamed for

the increased cost of any article to the consumer); that which *was* increased was the value of the sugar lands in this country, because now they can be used to produce sugar. The consumer pays this increased land value in the increased cost of the sugar he buys.

Instead of sugar one might have taken clothing, or sewing machines, or anything else carrying a tariff, and by tracing the effect of the tariff one would find that any benefit which followed its imposition (if there were any benefit) inevitably went to the land-owners, and that the condition of the average man was made worse than it would have been if the tariff had not been imposed.

If we were to lower the tariff or even abolish it entirely would the worker in either case benefit? To a very limited extent, if at all, under our present land tenure system. Free trade should, and if allowed to work unhampered would, benefit the whole population by enabling it to obtain many kinds of goods abroad cheaper than these things could be bought if made here; and in order to pay for these increased imports, production here, in many fields, would be stimulated and employment increased. Actually, however, so long as we have more men than jobs, as soon as it became established that, because of free trade, the average man could live on less, land values and rents would rise sufficiently to take this benefit from him. Inevitably, the pressure of unemployed men bidding for jobs would bring this about. England's near approach to free trade enormously increased her commerce, but it did not raise her standard of living; the benefits were reflected in higher land values and in higher rents.

The widespread belief in the beneficence of the tariff

probably is founded in the fact that the average man does not realize that foreign trade, like all trade, is a two-way process. The goods we buy abroad must be paid for with things made here, for our money is of no value in a foreign country. When jobs are scarce, and men, unfamiliar with economic principles see goods coming into this country from abroad, it is easy for them to jump to the conclusion that if these things had been made in this country men here would have had employment in making them and, therefore, that permitting imports is the cause of their ills. We have already seen the fallacy in this.

The only substitute for poverty is the possession of wealth. Anything which interferes with the production of wealth, then, is an evil. Tariffs interfere with the production of wealth, for they interfere with trade. Specialization in production and exchange of the goods thus produced, either among individuals or among nations, is one of the best methods of increasing efficiency of production. Since tariffs interfere with this process, tariffs cannot but be an evil.

Every advance in methods of transportation, from the wheelbarrow to the airplane, has facilitated trade. Does it not seem worse than foolish to spend billions on roads, railroads and the improvement of waterways and harbors; on railroad equipment, trucks and steamships, in order to promote the exchange of products, and then to erect a custom house at the end of each road to interfere with the increased trade which the better transportation stimulates?

The United States has been the greatest free trade nation in the world in its internal relations, with no tariffs between any two states. It was not always so. In Colonial

days many states imposed duties on goods coming from other states, but with the adoption of the Constitution these interstate tariffs were abolished, the Constitution decreeing, "No tax or duty shall be laid on articles exported by any State," and it was this freedom of commerce which opened up this country from ocean to ocean. In principle, what is the difference between free trade among states and free trade among nations? Nowhere in life is there a substitute for freedom. The cure for our economic ills lies not in restricting trade, but in eliminating unemployment and in making men free.

When some company establishes a "company" store and insists that its men shall buy their supplies at this store exclusively, though at prices 25% higher than the same things could be bought for elsewhere, indignation is aroused at the injustice to these men and at the infringement on their liberties. When we buy a woolen coat from England, or sugar from Cuba, and our tariff laws require us to pay 25% to 50% more for these things than the people in England or Cuba would pay, why should we not be equally indignant at the injustice to ourselves and at the infringement on our own liberties—even though we may ignore the additional facts that the imposition lessens our chances of getting employment and lowers our standard of living?

It has well been said: "Free trade consists in letting people buy and sell as they want to buy and sell. 'Protection' requires force, for it consists in preventing people from doing what they want to do. Protective tariffs are as truly applications of force as are blockading squadrons and their object is the same—to prevent trade. The difference between the two is that the blockading squadrons are a means by which nations seek to prevent

their enemies from trading; protective tariffs are a means by which nations seek to prevent their own people from trading. By 'protection' we do to ourselves in times of peace what our enemies seek to do to us in times of war."  
—Henry George in "Protection or Free Trade."

### 3—LABOR UNIONS

Not infrequently we have millions of men out of work, supported wholly or in part by charity, either governmental or private. Even in times of so-called prosperity we have millions who are very near the line where they must choose between charity or hunger. Probably no one believes this condition to be due to our country being unable to produce enough to support all of its people in comfort. Almost everyone realizes, at least vaguely, that it is due either to lack of employment or to low wages. Believing the cause to be low wages, the labor unions propose to raise them. Can they do it? Can they bring about a condition where everyone can be *certain* that, if he wants it, he can always have employment at good wages? Probably even the most optimistic labor leader would not promise this—and if he did, the goal could not be achieved by unionizing labor.

That labor unions in the skilled trades can raise wages in these specific trades, to some extent and for a time, is, of course, true; but that they can raise general wages is not true. Labor union members, and many others, overlook the fact that the increases in wages which the unions enforce in some trades must be added to the price of the goods made in those trades. The workers actually receiving the increased wages may benefit, but for every consumer who buys the products made by

the men in these unions this increase in the price of the goods he buys only means that his wages will buy fewer goods than before. Therefore, as the standard of living of one group is raised, that of others outside this group will be lowered.

Nor do these increased wages benefit even the members of the union for long. On the one hand, the higher cost of goods will decrease the demand for goods, thus decreasing the number of men needed to make them; on the other hand, the higher wages will increase the competition for the smaller number of jobs. Honest labor leaders admit that both of these things occur in spite of all the efforts of the unions to the contrary. And it must be true, because slowly but surely the irresistible pressure of men out of work, bidding for jobs, must tend to drive all wages down.\*

\*The Federal Home Loan Bank Board publishes each month the cost of building a standard six-room house in selected American cities. Herewith is a comparison between Cleveland and Los Angeles.

The Cleveland building trades have done much more collective bargaining than have those of Los Angeles, and Cleveland has a completely closed shop. A bricklayer in Cleveland (1939) gets \$1.65 per hour, in Los Angeles \$1.00 per hour, and other trades in proportion.

Cleveland has plenty of bad residential housing and needs new housing probably more than does Los Angeles. Between 1935 and 1939 Cleveland built only 143 residential housing units per 100,000 population. During the same period Los Angeles built 2,056 housing units per 100,000 population, i.e., construction in Los Angeles was fourteen times that of Cleveland for each 100,000 population. Or, to put it another way: while Cleveland bricklayers were getting one hour of work and \$1.65, the Los Angeles bricklayers were getting fourteen hours of work and \$14.00. Which bricklayers were the better off? Statistics show that the building trades in Cleveland collectively bargained themselves into unemployment and destitution; for the building trades' workmen in Cleveland, while getting more per hour, were getting less per year than in almost any other large city in the United States.



If it were possible for *all* labor to be unionized, and for all workers thereby to receive increased wages, then *no one* would benefit. The prices of all commodities would need to be raised to pay these increased wages and the condition of the worker would be the same as though there were no unions at all. Everyone would be receiving nominally higher wages, but the higher wages would purchase no more than the lower wages had purchased previously; for any increased wages not accompanied by a correspondingly increased production must always raise prices. If, by any chance, all of the increased wages were not absorbed by the higher prices, then, inevitably, rents would be increased enough to absorb the difference.

Labor unions are maintained by force. Men who have no inclination toward them, or who even are opposed to them in principle, are forced to join them in order to get jobs. Unions often seek to enforce their demands by strikes, which, even when no violence is used, may be more destructive of property than is a war. The leader of a labor union must be an autocrat. But in spite of this autocracy and of the destructiveness of strikes; in spite of the arbitrary limiting of the number of apprentices in some trades and the arbitrary rules limiting the number of hours a man may work and fixing the amount of work he may do in a day; in spite of the ostracizing of non-union men and the boycotting of businesses, with or without a just cause; in spite of all these, if labor unions could solve the labor problem—if they could bring about equality of opportunity for *all* men, their shortcomings might be overlooked. But labor unions cannot do this, not in a thousand years, by their present methods; because instead of attacking general causes they give their attention only to individual cases and leave the general

cause of low wages and unemployment still operating. Not only do they not attack the cause of their troubles; they seldom, if ever, seek to discover this cause; and their methods divert attention from the real object to be achieved.

Practically everyone realizes that Labor receives far less than its just share in the distribution of wealth; but it is not the employing class, not the capitalist, as most unionists seem to believe, which receives what should go to Labor. If it were, every factory owner, shopkeeper, merchant, farmer—everyone who employed even one man to help him, should flourish, because in addition to getting his own wages he would get also a part of that which should be paid to the employee. Yet everyone knows that both large and small business men who have no special privileges must, in the vast majority of cases, struggle desperately "to keep their heads above water." Credit agencies, whose facilities enable them to know the facts, tell us that more than 95% of all those who start in business fail within 66 months. This means that they not only did not flourish by exploiting their employees, but that they did not receive proper wages for themselves nor even get back the capital they invested in their enterprises.

No, it is not the capitalist, as such, who gets the wages Labor does not get. As a matter of fact, any increase in wages enforced by labor unions does not affect Capital very much at all, in the long run. If the capitalist has existing contracts which must be filled, he will suffer because of the raised wage scale until these contracts have expired; but new contracts will be made at such an increase in price as will pass the increased wages along to the consumer. If, for any reason, this increased wage

cannot be passed along to the consumer, then, the employer, if purely a capitalist, will probably fail, and instead of Labor receiving increased wages from this source it will receive none at all.

An employer who is both land-owner and capitalist, by decreasing the amount of rent he pays to himself, may be able to pay the higher wage and still meet competition without increasing his prices. But this concession will be made to Labor by the employer, not as a capitalist, but as a land-owner. Labor may inquire: "What difference how we get the concession, so long as we get it?" The difference is vast. The importance of seeing who makes the concession lies in this: if labor unions did recognize economic principles and did understand how they operate, then they could undertake intelligently to better general labor conditions.

Just so long as the unions fail to recognize Labor's relation to land, and also fail to recognize the difference between capital and land, just so long will they waste their efforts in trying to accomplish the impossible, i.e., in trying to raise their own position by pulling Capital down. If they but knew it, the position of the capitalist who has no special privilege, as a land-owner or otherwise, is just as precarious as is that of Labor itself. In order to produce abundantly, Labor must use capital, and in trying to destroy the capitalist—the man who has saved wealth for Labor to use as capital—Labor is trying to destroy one who is in no way its enemy, but rather its friend and helpmate.

That which oppresses Labor is not exploitation by the capitalist, nor is that which oppresses the business man the higher wages which must sometimes be paid because of labor unions. As has well been said: "Capital and

Labor fight each other because they fail to recognize they have a common enemy who is oppressing both of them. They are like two brothers who, searching for a thief, and, meeting in the dark, mistake each other for the thief and fall to fighting each other, while the real thief escapes with the property of both of them." The real enemy of both Capital and Labor is the system which puts one man in the position where he can compel another to give up a part of what he produces in order to get an opportunity to produce. If labor unions would make their efforts effective, this is the enemy they must destroy. If they would seek a way of raising all wages, instead of only specific wages, the probability is they would quickly see that the problem of wages is a problem of opportunity and of production, and not one of organization.

Basically there is no such thing as a labor problem; there is, instead, a land problem, and only a land problem. If Labor could get easy access to all the land needed for any purpose, whenever wanted, all questions regarding hours, wages, and condition of labor would disappear; because then no one, neither employer nor employee, would ever be involuntarily out of employment, and forced by conditions to underbid another in order to get an opportunity to work.

#### 4—ABOLITION OF COMPETITION

*"There is no instance on record of a class possessing power without abusing it."*—BUCKLE

Often reference is made to the so-called "evils of competition" and it is contended that even if free competition ever has benefited society, it has had its day, is no longer

beneficial, and should be abolished—by law, if necessary.

This erroneous belief doubtless is due to failure to comprehend the nature of free competition. Divested of the confusion of thought which has been associated with the use of the term, does "free competition" mean anything but freedom in bargaining? Investigation will show that instead of free bargaining having been tried and found wanting, it really never has had a trial. Bargaining has approximated freedom on the edges of frontier settlements and there it has worked well; but we have no record of any organized government which ever allowed an opportunity to test what free bargaining, free competition, might accomplish.

The granting of privilege, in some form, by the government, has been common almost from the beginning; and wherever one finds privilege legalized, then and there, and to the extent of the privilege granted, free competition becomes impossible. There can be no free bargaining when one of the parties to a transaction is helped by a legal advantage, and the other is hindered by a legal disadvantage. It is as though in a foot race one of the contestants were foot-free, untrammelled in his efforts to attain his object while the other were shackled by a ball and chain to hold him back. Where tariffs prevail, there free bargaining is hindered deliberately and intentionally; where taxes are imposed on producers or on consumers or on any other class, as such, this class is hindered in dealing freely with others. But worse than all else, we have landless men, who must work or starve, and whose only chance of getting employment is by competing for it (competing with other men who also must work or starve), while to others has been given the legal privilege of shutting them off from the land with-

out which they cannot work. One might call this condition a free farce were not its results so tragic. Certainly it is not a condition of free bargaining nor of free competition.

Men living in society, in their economic relations, either must be subject to government compulsion or left to compete voluntarily and freely (which is free bargaining). When any individual or group of individuals is denied a privilege granted to others, the owner of this privilege has the power of using compulsion, or of having compulsion used, on those denied the privilege; for the privilege is of no value to its owner if he cannot compel others to live by its terms. To empower one to exercise compulsion on others is to apply the principle of slavery; and it is none the less slavery if the one who owns the privilege can have the government apply the compulsion instead of doing it himself.

Co-operation in its broad sense is not limited to such profit sharing schemes as are usually called by that term; to the contrary, it implies a nation-wide, or even a world-wide, combination of effort in supplying human needs. This must be either voluntary or enforced by government—there can be no third choice. True co-operation is a voluntary interchange of labor. Compulsion in any form is the enemy of freedom. Any political attempt to direct co-operation must be circumscribed by the mentality of the "director." Direction can be enforced only by duress, which, to the extent exercised, means the destruction of freedom.

They who oppose free competition claim that such an interchange would not be practical unless it were regulated by government. But who will do the regulating? Who is there competent to decide, justly, who shall

work, for whom one shall work, at what one shall work, how, and how much one shall be paid? The answer is that no man, no body of men, is fitted to decide these and similar questions for others. What might be just for one man might be unjust for another; it might even be unjust for the same man, in changed conditions, tomorrow. No regulation of these conditions for any individual by anyone else can possibly be fair, or can even approximate fairness. Nor is such regulation necessary.

Voluntary co-operation, free bargaining, would require no regulation, for it would leave each man free to decide these things for himself. If every man had an equal opportunity with his fellows to work, or not to work, if, as, when, where and how he wished, free competition could produce but one result—neither party to any transaction would get more nor less than might be fair.

Some think of free competition as though it were necessarily associated with selfish greed. "Selfish greed" might or might not be a motive in competition, but whether it were, or were not, the result would be the same. In a free market, where no man had any legal advantage over any other, the pressure of self-interest in and from all directions would force men to make bargains which were fair and just; no one would be overpaid nor underpaid. If anyone should demand more for a given amount of service than others were willing to accept, he would not get the business or the job. If another were not willing to pay him what he believed his services to be worth, he could always go to work elsewhere—for another or for himself. With truly free competition, it would be impossible for one man to oppress another, because when even the poorest worker had

plenty of opportunities to work open to him, no man would need to underbid another to get employment. Each then could, and would, co-operate with his fellows on terms mutually satisfactory and beneficial to both, and only on such terms.

There are those who oppose free competition on the ground that human nature is not fitted for it. Objections so based remind one of the conditions in the Andersonville Prison during the Civil War, where sometimes thousands of prisoners captured from the Northern armies were herded together (on 26 acres there were at one time more than 32,000 men). No provisions were made for sanitation, or for shelter or for fires. The prisoners had only such clothing and bedding as they may have had with them when captured; very little food was supplied, sometimes none for days at a time; the only water for cooking, washing, and bathing was from a small stream which flowed across one corner of the stockade and which frequently was polluted and inadequate. Though occasionally the incidents of heroism and sacrifice for others which came to the surface were almost superhuman, on the average, such conditions could bring out only the worst in human nature. Bands were formed for pillage and for protection. Brawls and murders were frequent. To claim that, because these prisoners often acted worse than animals in order to live at all, they should not be set free would have been no more illogical than it is to claim that, because, in our present economic system, competition for an opportunity to work (which is the kind of competition we now have) often makes men ignore the welfare and rights of others, therefore free competition itself is impractical and compulsion should be substituted for it. NO!



The aim should be to establish free competition—to permit true voluntary co-operation—if we would have our civilization go forward. Any step taken toward throttling free competition is a step toward the destruction of individual liberty. Every step in this direction is a step backward toward another series of Dark Ages, such as those under which Europe struggled for more than a thousand years. The cause of these centuries of misery in Europe was the same as that which now causes our economic turmoil, and which will cause dark ages for us if it is not abolished. That cause was the extension by the government of privileges to the few which permitted them to control the lives of the many.

Francis Bacon says that by the middle of the thirteenth century the Church owned more than one-third of the soil of Europe, and that various kings and families of the nobility owned at least three-fifths of the remainder. Is it any wonder that in these conditions the average man was degraded and ignorant? The wonder is that the spark of manhood survived at all.

Special privileges and free competition cannot exist at the same time in the same society. To establish one is to abolish the other. There are many forms of privilege granted by government, but by far the worst of these is the privilege granted to a part of the people to compel others to pay them for permission to use the earth.

The greater the individual liberty, the greater the possibility of man's development. True individual liberty is possible only in free competition. Free competition is impossible unless every man has an equal opportunity with all of his fellows to earn his bread; and equality of opportunity cannot exist in a society which grants to some privileges denied to others. Therefore, let us abolish

the kind of "competition" we now have—let us abolish special privileges and establish truly free competition.

### QUESTIONS FOR DISCUSSION

- 1—What will cause prices of goods to increase when the wages of the men producing the goods are increased? What condition will cause an increase in wages to be accompanied by a decrease in the price of the goods made?
- 2—Is it proper to measure wages by the money received by the workman? Should they be measured by the relation between what he produces and what he gets? Should they be measured by the degree to which he can satisfy his desires with what he receives? What is the true measure of wages?
- 3—Is labor a commodity? Does a man sell his labor or the product of his labor?
- 4—How does a strike, while in progress, affect labor, capital, land-owner? Is any one of these helped or harmed by the strike, regardless of the way a strike may be settled?
- 5—Is trade a part of production? Does interference with trade ever increase production? Decrease it? Why?
- 6—What is meant by "a tariff for revenue only"? What is a "protective tariff"? Are their results always the same? What effect does each have on imports? On exports?
- 7—Would unrestricted importation of goods from other countries create unemployment, reduce wages, or adversely affect our industries? Explain.
- 8—It is believed by many that when a country exports more than it imports, its foreign trade is profitable. If its foreign trade were done entirely by barter—a direct exchange of goods—would this be true? Is there any logical reason for believing that the effect is different when the trade is indirect? Why?

- 9—What is the effect of an import duty on any given “protected” home industry? What effect will this have on consumers? What effect on other industries not “protected”?
- 10—Can co-operative enterprises raise wages or decrease prices in our present system? Why?
- 11—What is necessary to insure fairness among employers, employees and consumers?
- 12—Must low wages be the rule when men must compete for jobs? Why?

LESSON

VII

IS THERE A TRUE REMEDY?

*"The association of poverty with progress is the great enigma of our times—it is the riddle which the Sphinx of fate puts to our civilization, and which, not to answer, is to be destroyed."*—HENRY GEORGE, "Progress and Poverty."

*"Whenever there is in any country uncultivated lands and unemployed poor, it is clear that the laws of property have been so far extended as to violate natural right."*—THOMAS JEFFERSON in Ford's "Writings of Jefferson."

WE BEGAN OUR INQUIRY WITH THE QUESTION: "WHY does poverty accompany progress and increasing want come with advancing wealth?" We have shown the answer to be: because, not only does the private appropriation of rent tend to absorb the increased product resulting from material progress, but, at the same time, the privilege of privately appropriating rent, by inducing speculation in land and the consequent holding of valuable opportunities out of use, operates to make this increased production *far* less than it would otherwise be.

*What is the remedy?*

Tariffs and labor unions, socialism and communism, fascism, nazism, the New Deal, etc., etc. have

been proposed (and some of them tried) as remedies. Even if any of these could solve our economic problem, each includes as a part of its program something which is worse than poverty—a curtailment of the liberty of the individual. An economic system is possible, however, that not only would not curtail the liberty of the individual but that would increase his liberty far beyond anything he now has or has known since very primitive times. At the same time it would make undeserved poverty, low wages and unemployment impossible. To the discussion of this remedy we will now turn our attention.

Carlyle said: "The hell an Englishman fears most is the hell of poverty." Probably this is true not only of Englishmen but of all men. Nowhere in the history of savage tribes do we find a record of such poverty or fear of poverty as we find in our modern civilization. A savage tribe may suffer want because of drought, hurricane, war, or because of ignorance, or from some other general cause; but when there is plenty for all, then every member of the tribe who is willing to work will have plenty. Poverty in civilized countries, however, is worse where wealth is the most abundant. The wealth of New Jersey, for instance, is estimated to equal \$3,415.00 for every man, woman and child in the State; yet in New Jersey, as in other states, there are hundreds of thousands who have nothing of their own with which to buy food, nor places of their own to lay their heads.

Suppose a visitor were to come to the earth from some other planet—someone with a logical mind, unbiased by precedent or prejudice—would he not think it very strange to find, all over the civilized world, that the poor man is a workingman? (Which does not necessarily mean that every workingman is a poor man.) In view of

the fact that all of the wealth in the world is produced by labor, and only by labor, it would seem logical to expect the workingmen to own and to live in the finest of homes and to have the most of everything labor produces. Instead, if we wished to find that section of any city having the largest percentage of homes of working people, we would always look for the poorer sections of that city. We have become so accustomed to seeing others get what Labor produces that, unless the condition is very extreme, it even seems the natural thing to expect.

We have seen that it is not excessive population, nor the use of machinery that makes work scarce, and that neither of these accounts for low wages, unemployment or poverty. We have seen that: (1) man is a land animal—his very life depending on what he produces from the land; (2) that which prevents Labor from producing abundantly is the necessity of working on poor land; and (3) that which takes from Labor much of what it does produce is the price which must be paid for access to land for an opportunity to work.

It is not many years since the man who did not succeed was an exception. He was called a "ne'er do well" and looked on with more or less scorn, because where land is free, poverty is usually the result of laziness or incompetency. Today the man who does succeed is the exception. He is referred to as a "well-to-do" man and is regarded with envy. But a careful examination will show that practically no great fortune consists of wages saved, nor of earnings on capital; practically every one of these vast fortunes is made up of returns received through the ownership of some special privilege, and the greatest of all special privileges is the privilege of owning land.

We have seen: on the average, land in every progres-

sive community tends to rise in value, even though there may be temporary recessions; but while land values progressively increase, the number of land-owners, relatively, progressively decreases: i.e., land gravitates into fewer and fewer hands. This not only causes great wealth amid great poverty, but eventually, if the process be carried far enough, it destroys governments and civilizations as well; for when the land of any country comes to be held by a small percentage of its people, the landless gradually have forced on them the realization that the benefits they receive from the society in which they live are not worth the price they must pay for these benefits; i.e., the return they get for their labor is no true compensation for the energy they must exert and the liberties they have lost.

When that time comes, these landless people become hopeless, and then indifferent or even antagonistic to their government. More and more they come to feel their condition could not be much worse and, possibly, with a changed government it might be better. Then the enemies of that government find the way open for its overthrow. If the disaffection be sufficiently deep and widespread, the existing civilization itself will decline.

The fall of Rome was not caused by barbarians from without, as is generally believed. Her fall was brought about by an economic condition within the Roman State that caused the great majority of its people to feel that what they had was not worth fighting for. In the height of her glory the proudest boast a man could make was that he was a Roman Citizen; shortly before the fall, being a Roman Citizen meant a chance to get free bread and circuses, and even this privilege finally had to be shared with the slaves. What caused this change? A

thousand years ago Pliny answered this question when he wrote: "Great estates ruined Italy."

Historians tell us that when Rome fell her land was owned by 2% of her people; when Greece fell, less than 3% of her people were land-owners; Persia had already gone down when her land was held by 2% of her people; and Egypt perished from the same cause—though in her case not until the land-owning portion of the population had been reduced to 1%. In modern history, we find that before the French Revolution (1789) less than 1% of the people of France owned more than 50% of the land of France. In Russia before the revolution (1916) the Czar owned one-third of the land, and the nobility owned another third. In this world of cause and effect cannot the same cause be expected always to produce the same result? Consider the troublous condition of the whole world today in the light of these figures:

		POPULATION	
1932	England	44,790,485	1/10 of 1% own 3/4 of land, 2% own all, 44,000,000 own none
1932	Scotland	4,842,554	3.6% own all the land, 4,668,000 own none
1932	Ireland	4,390,219	1.4% own all the land, 4,328,000 own none
1932	Italy	43,000,000	4% own 3/4 of the land, 40,000,000 own none
1932	Poland	34,000,000	1/20 of 1% (1800 people) own 40% of the land
1932	Germany	65,306,000	400 people own 1/10 of the country
1932	Spain	24,000,000	(before revolution) 1% owned 51.5% of the land
1936	Japan	91,793,000	1 1/2% own 50% of arable land (figures for city land different) 23,000,000 farm tenants
1910	Mexico		2% own 70% of the land (in State of Morales 2% owned 98% of the land)



Few realize what has taken place and is taking place here in the United States in the gravitation of our lands into fewer and fewer hands. Though exact percentages are not obtainable, the figures shown in the addenda on pages 218 to 222 are both enlightening and ominous.

When we realize how near the whole civilized world is coming to the point at which past civilizations have perished, we may well become alarmed for the safety of our own.

What can we do about it? The only remedy for any evil is to remove the specific cause of that evil. To spend time in trying to relieve symptoms only obscures the issue, wastes our efforts, and does no permanent good. If we wish to eliminate undeserved low wages, unemployment and the bitter struggle for a living, we must destroy private property in land. There is no other way. Until this be done, the greater part of the pecuniary benefits of every improvement in society will go to the land-owners. This *must* be so, if the economic laws as we have worked them out are correct.

When it is proposed to destroy private property in land, two questions are apt to arise:

- 1—would this not be unjust to present owners? and
- 2—is not land ownership necessary in our present day society?

Let us consider the second question first. Whenever any condition or custom has existed for a long time, then this condition or custom seems proper and natural and we hesitate to change it, especially if the change requires a change in our habits of thought. Though reason tells us that producers of wealth would be vastly benefited if

there were no private ownership of land, most of us at first shrink from the thought of abolishing the system. But if the holding of land as private property is the cause of the increasing difficulty to get a living and of the gradual decline in our liberties; if private property in land is detrimental to the welfare of humanity as a whole, and is threatening destruction of our civilization; then, not only should we be willing, we should be anxious to break with it.

If private property in land had always existed, even that would not make it necessary, or wise, or just, to continue the system after we had found it to be an evil. But as a matter of fact, the belief that all men have an equal right to the use of the earth is by far the older conception. It is only as civilizations reach a certain stage in their existence that they introduce the custom of permitting land to be held as private property—a custom which, in time, must destroy any and every nation that adopts it.

Up to the end of the fifteenth century practically all of the land of England was held in common, such enclosures as were made being admittedly temporary. Then the enclosing of great amounts of land began. It was this which started the waves of emigration toward America. When the white people reached America they found that the Indian tribes here held their land as common property—a custom still followed by the Pueblo Indians of the Southwest.

In both English and American law, to a greater or less extent, it is recognized that property in land differs from property in labor products, and that the land belongs to the people as a whole. For instance: the Constitution of the State of New York says (Article 1, Section 10):

*"The people of this State are deemed to possess the original and ultimate property in and to all the lands within the jurisdiction of this State; and all lands, the title of which shall fail from defect of heirs shall revert and escheat to the people."*

We have our laws of eminent domain, by which, if it be decided that the community needs land held by any individual, he can be compelled to give it up to the community whether he wishes to do so or not. Blackstone, the father of English law, wrote:

*"Accurately and strictly speaking, there is no foundation in nature or in natural law, why a set of words upon parchment should convey dominion to land."* (COMMENTARIES, Book 2, Chapter 1.)

Actually today no one has a good title to the land he holds. All land titles trace back to force or fraud. The first man to sell land was selling something to which he had no valid title—no just claim. Subsequent owners may have bought in good faith, but no one can buy a better title than the seller has to sell. A stolen watch may have been sold many times, but it would still belong to its original owner and he could claim it when found, though returning it to him might work a hardship on its latest purchaser.

Fundamentally, a title to land is only a franchise, granted by government, for the temporary holding of a piece of land by its owner, on terms specified by the government. This is all any government can grant, and the government retains the power to revoke this franchise, as is shown by our laws of eminent domain. A title to land can be perpetual only in the sense that it will continue in effect as long as the government which grants

it may continue. The land itself will survive the life of any government, but a title to land disappears with the government which granted it. The new government may or may not recognize grants made by the old one, as it may see fit. When California and the Southwest were annexed to the United States, our government refused to recognize many of the old Mexican land grants. The changing governments in Europe have wiped out many existing land titles, often many times.

Private property in land, then, is not so solidly built into our modern life as is commonly believed; but the harm it does is none the less real, and it must be abolished.

There is, however, a great, fundamental and vital difference between private *ownership* of land and private and exclusive *possession* of land. Without exclusive possession—security of tenure—its user could not be certain of getting the benefits of the improvements he made on that land, or the wealth there produced, and therefore he would not attempt to put the land to its best use. But, given security of tenure (and this can easily be done by lease or in some other way, without private ownership), the man who wishes to *use* land (not speculate in it) will not need to own it in the sense that he owns the improvements made on it or the wealth produced from it. Today many of our largest buildings are built on leased land. Radio City in New York City covers 12½ acres. Rockefeller, who erected and owns the buildings, owns but one of these acres, the other 11½ being owned by Columbia University; the land under the Chrysler Building is owned by Cooper Union; that under the Waldorf Astoria Hotel is owned by the New York Central Railroad; Wanamaker in 1937 signed a 99 year

lease with Sailors Snug Harbor for the land under his New York store. Similar instances abound in both city and country; many oil wells are drilled on leased land.

Those who speculate in land must own it if they are to get the profits land speculation may bring, but those whose wish to USE land do NOT need to own it if they are given a secure tenure. And it is land use which society should encourage, not land speculation.

*Private ownership of land, then, is not necessary in our modern society.*

Now let us consider the other question: Would it not be an injustice to present land-owners to abolish private property in land? This is the form in which the question is usually phrased, but actually the thought in the mind of the questioner usually is: Would it not be a *hardship* to present owners to abolish private property in land?

The answer to this latter phrasing is a decided No! Not only would it be no hardship to the great majority of land-holders—it would be a great benefit to them. Those who own the land of any country constitute only a small minority of the people of that country, and among this small minority the only ones (if, indeed, there be any at all) who would suffer any hardship because of such a change would be that extremely small percentage whose interests as land-owners were very much greater than their individual interests as capitalists or as laborers, or as a combination of these two.

To see why this is true we must remember that the granting of private property rights in land can and does operate to oppress producers in two ways: first, by taking from them much of what they produce without giving

anything in return, and, second (which is of far greater import), by preventing them from producing—either by forcing them to use lower grades of land than they otherwise would or by excluding them from land of any grade that will yield a living. To illustrate: suppose, as shown in diagram 19, seven men constitute a given com-

$$\text{Wages } 7 \times 5 = 35$$

	in use	in use	in use	in use	in use	in use	in use
	100	80	60	40	20	10	5
Rent	95	+ 75	+ 55	+ 35	+ 15	+ 5	= 280
							Wages $7 \times 5$ = 35
							Product (wages plus rent) = 315

No. 19

munity; suppose also that three times as many people could make a living from each of the seven grades of land as now do so; that two-thirds of each grade is held out of use, and that the 5 land is the poorest land in use. The wealth there produced would amount to 315, of which 35 would be wages, the rest going as rent.

Suppose, however, we were to abolish the system which permits the holding of land out of use or but partially used (which is the same thing to a lesser degree), those working the poorer grades of land then could move up to the better grades now idle. The expenditure of the same amount of labor as before but on the better grades of land, would almost double total production, and wages would be twelve times what they were before, with an actual decrease in the portion of the product going as rent as in diagram 20.

At first these figures may seem fantastic, but actually

they offer only a mild suggestion of the benefits which would follow if workers could use our more productive, but now idle lands. In diagram 19, only two-thirds of the land is supposed to be held out of use. Figures showing the actual amount of unused land in the United States are not available, but the following data are sig-

Wages  $7 \times 60 = 420$

100	80	60				
100	80					
100	80					

Rent  $(3 \times 40) + (3 \times 20) = 180$

Wages  $7 \times 60 = 420$

Product (rent plus wages) =  $\frac{600}{}$

No. 20

nificant, and indicate that the percentage is vastly greater than in the above illustration. First, compare our population of 41 to the square mile with that of 742 to the square mile in England (even in England one finds vast areas of unused land); and since our natural resources per square mile cannot average less than those of England, these figures alone indicate that much more than two-thirds of our land is held out of use. But consider the question from another angle: Wayne Heydecker, Director of State Planning for the State of New York, wrote in "The Freeman," Feb. 1938:

*"The combined areas of all the municipalities of the United States scarcely exceed one per cent of the area of the country; and of the area of the average municipality, approximately 40% is entirely vacant. The remaining 60% includes areas devoted to streets, parks and other public uses, as well as the areas used for*

*privately owned structures.*" (These figures are corroborated by Harvard investigators.)

This does not take into account however, the lands in towns and cities which are but partially used, many of them occupied only by "taxpayers," built to produce approximately enough revenue to pay the carrying charges. In our municipalities, then, three-fifths of one per cent of the land of the nation is in use to some extent. The 1930 census gave the population of the United States as 122,775,046, but of this total, the number living "outside incorporated places" was 44,637,188, or about 35%. This means that 65% of the people in the United States live and do their business on three-fifths of one per cent of the land. This gives a vague idea of the percentage of our land that is held idle.

In estimating the difference in product as between two given grades of land we must, of course, consider the difference between the respective amounts of labor expended. Also (see p. 80n), this same factor must be considered in estimating the relation between wages and rent. Total product, less rent, divided among workers, equals average wages per worker. In No. 20 it is supposed that as much labor would be expended as in No. 19. But, if the comparison be made between, in one instance, farm land on which a given number work and, in the other instance, city land where more persons work on a given acre, results would be different as to *wages per worker*. On the farm one worker per acre might suffice while in the city several thousand might work on a given acre. Thus, it is obvious that *wages per worker* on land with rental value of a million dollars would not be a million times as much as on the one dollar land.



But this does not vitiate the basic truth illustrated, that wages would be enormously increased if producers had access to the better lands now idle. These benefits would inure to every producer, whether capitalist or laborer, and whether or not he was also a land-holder.

Does this not substantiate our answer to the question as to whether or not it would be a hardship to present land-owners to abolish private property in land? Almost universally a man's ability to earn would be so greatly increased that the advantage to him of this change would far exceed any benefit he may be able to get as a land-owner under our present system.

*The proposed change could work a hardship only to those very few whose interests are overwhelmingly those of land-owners. It would bring untold benefits to practically everyone in society, including the great majority of those who themselves own land.*

But the fact that a change will bring benefits to a portion of the people, however great that portion may be, does not make that change, of itself, a just one; nor is a change which brings hardship necessarily an unjust change. (The destruction of the ships and hide-outs of the old pirates was a great hardship to the pirates themselves, but this destruction was not unjust.) Therefore we come back to the question as originally phrased: "Would this change be an *injustice* to the land-owners?"

What is it that gives the holder a good title to what he holds? On what does one base one's claim when one says: "This is mine"?

Our Constitution assumes, and the great majority of our people believe, that an individual belongs to himself. His energies and all his powers belong to him, and only to him, just as truly as do his hands and feet, be-

cause they are a part of him. We have seen that in order for a man to live, his energies must be exerted on land, for however productive a given location may be, potentially, a man can get nothing from it without labor. "By the sweat of the brow shalt thou earn thy bread" was not a curse put on man but a simple statement of a natural order.

When John Smith has taken something from the land and worked it up into something to satisfy some human desire, that thing which he has made is no longer just land. It is land to which John Smith's energy has been applied. He has put into the making of that object a part of himself, and this differentiates that object from everything else in the world—and makes it logically the property of John Smith. Unless John Smith belongs to some one else, that which John Smith makes by the expenditure of his energy must properly belong to him.

This expenditure of energy in producing an object is the only basis for a just claim to the ownership of that object. In order to have a just title to anything one must have produced it, or obtained it in exchange for something one did produce or for services rendered, or must have received it as a gift from one having just title.

Who is there, or what is there, that can give a just title to land? Man never produced land, nor could he, by the utmost exertion of his energies. Land exists regardless of man and would continue to exist even if mankind were destroyed.

Nor does any one individual create land value. Land value comes as the result of men forming themselves into communities, and it arises automatically, without anyone giving any thought to it. Land value is a by-product of social life, and its amount will be fixed by the relation

between the demand for any given kind of land and the amount of that particular kind of land that is available. Every newcomer into a community increases the potential demand for land in that community, and hence tends to increase its value. If the people were all to leave a given locality, its land value would decrease, or disappear entirely.

If land is not produced by man, if land value arises solely because of the presence and activities of the community as a whole, and if property rights are not to exceed their just limits, then neither land nor land value can properly belong to any individual or to any group of individuals.

Everyone comes into this world willy-nilly and brings with him, from an economic point of view, just one thing—the ability to labor. He finds here a world upon which he can, and upon which he must, work to satisfy his desires. It inevitably follows, then, that every man has a just claim and an equal claim with every other man to the use of as much of this world as may be necessary for him to use to make his living.

The remark is often heard that “the world owes every man a living.” This is not correctly stated. If truly worded, the phrase would be: “the world owes everyone an opportunity to work for his living; and no individual is entitled to have a better opportunity to earn a living than has any of his fellows.”

Equality of opportunity to earn a living is impossible so long as private property in land is permitted; because, if man can justly own land in the same way that he can own labor products, he can justly demand from another payment for permission to use the land. This would mean that the land-owner could get wealth without pro-

ducing it, and that, consequently, the other would produce wealth only to have some of it taken from him without receiving anything in return. In such a transaction one would benefit at the expense of the other; certainly this would not be compatible with equal opportunity.

If, justly, one portion of the earth's surface can become the property of one individual, there is no logical reason why other portions also cannot be owned by the same or by other individuals. This would mean that there would be no injustice if the whole of the earth's surface were owned by one or by a few individuals, though this would mean that only the land-owners would have any legal, or just, right on the earth at all. The landless would all be trespassers, and if the land-owners saw fit, they could deny them standing room on the earth.

In 1536 Henry VIII enclosed much of the common land of England in order to make estates for his favorites. Those who had been using these commons were driven off, and were hung and branded by the thousands for being vagrants and beggars. One historian\* speaks of "the enormous increase in petty crimes during the reign of Henry VIII." He tells of 72,000 who were hung as great or petty thieves; of 60,000 thrown into jail for debt; and of "numbers impossible to count" who were punished for begging. One punishment for begging was to be branded by burning through the ear. Begging, debt and stealing were "grievous burdens of the State"; but how were these thousands of people to live after being

\*Hon. Justice Stephens, quoted in *The Evolution of Landlordism* by James Philpott (London: Co-op Printing Society, 1899), pp. 35, 42-3.

driven from the lands they had been using—lands which were taken from them to give to the king's favorites! Some of these same lands now constitute the center of London and form the basis of England's greatest fortunes.

We think: "How terrible!" Yet today we have our own millions who likewise have been excluded from the land. Their exodus does not seem so dramatic here where it has come about gradually as when it was brought about by a king's decree and enforced by armies which could be seen and hated; but the resulting suffering is just as real. Thus far, we have been feeding our dispossessed peoples by taxing those who produce, but when this can no longer be done because of the limits of taxation having been reached—what then?

History consistently tells us that any nation that permits inequality of opportunity among its citizens must, if for no other reason, sooner or later perish. Private appropriation of rent spells inequality of opportunity. Therefore, any nation that permits private appropriation of rent must, if for no other reason, sooner or later perish. Self-interest, aside from all else, demands justice.

For men to live, wealth must be produced; to produce wealth, men must use land; therefore, in order for all men to have equal opportunity to live, all men must have equal opportunity of access to land, from which to make a living. Opportunity of access to the earth is as essential for life as is access to air.

Few, though, realize that if one cannot use land without paying another for permission to do so, one is no longer a free man. If A can compel B to give him 50% of all B produces to get access to land upon which to work (which really means for an opportunity to live) then 50% of B's time and energy belong to A. To that

extent, B is as truly compelled to work for the benefit of A as if he were, in the eye of the law, A's slave for one-half the time.

✓ If chattel slavery is unjust, then is private property in land unjust; for so long as we permit private ownership of land, the fact that Labor must use land in order to live, will tend to give mastery by the land-owner on the one hand, and to cause a corresponding helplessness of the landless on the other. As we have seen, wages fall while rents rise, and when even the poorer lands become difficult or impossible to secure at a price which will ✓ leave Labor a decent living, then competition for jobs among producers will force them to give up all but the bare necessities in return for permission to use the land. Their condition, then, is often worse than that of a chattel slave, though they are called free men.

The essence of chattel slavery lies in the power it gives the master to take from the slave everything he produces. But even the worst master will not take everything the slave produces because he will want the slave and his children to work for him in the future. Though the master has power to take all the slave produces, even the most degraded slave under the hardest of masters would have left to him the necessities of life. A similar power arises from allowing private property in land, and it is no exaggeration to call the resulting condition of the worker one of economic slavery. If we were again to legalize chattel slavery, who would now buy slaves when men can be hired so cheaply and without responsibility for their upkeep while they are growing, or when they are old, or sick, or, for any reason, unable to work? We did not need the Civil War to destroy chattel slavery. Our changing economic conditions would have de-

stroyed it and replaced it with economic slavery, for it soon would have become cheaper to hire men than to breed and support them.

We assume that we are a free people, each free to work as he likes and to enjoy what he earns. But are we? To drop a man in the middle of the ocean and then tell him he is free to swim ashore in any direction he likes would be no less ironic than it is to tell him he is free to work at what he likes and that his success depends on his own efforts, when he has no place to work. That a people can be enslaved just as effectually by taking their lands away from them, as by making property of their bodies, is a truth which has been recognized by the conquerors of all ages.

We did not abolish slavery when we adopted the Fourteenth Amendment; we only abolished one of its cruder forms. To truly abolish slavery we must abolish private property in land. ✓

*No, there would be no injustice in the abolition of private property in land. To the contrary, the whole human race must suffer injustice until it is abolished.* ✓

But, as before stated, it is not the land-owners, as such, who are responsible for the results of the system of private property in land. Our ills must be charged to land-owning as an institution. Land titles are not based on justice, through production of the thing owned, as is a title to labor products. The land-owner can hold his title only so long as his claim is upheld by the government. Land titles in the beginning were based only on force; and today they are continued only by force. But force can be applied in any society only so long as public opinion assents or is indifferent. Therefore it is the public which supports a government in granting and upholding

the privilege of private property in land that is responsible for its resulting ills.

The poor as well as the wealthy, the unemployed as well as the employed, the landless as well as the land-owners, all must share the blame for the growing keenness of the struggle to make a living, for the undeserved poverty around us, and for the growing infringement upon our liberties. No one can escape his share of the responsibility.

The question is sometimes asked: "If private property in land were abolished, should land-owners be paid for their land holdings?" Compensation to land-owners might be considered with propriety if land-owners on their part would surrender all of the benefits they, as land-owners, have received, plus compensation for the wealth they have prevented Labor from earning through the land being held out of use. Certainly if we are to consider compensation at all, it is only proper to consider compensation for the respective losses of both parties. Or, if but one party is to be compensated, should it be the party who has suffered because of an unjust institution or the one who has benefited from it?

But since, if land-owners were to give up all the wealth they possess—even if they owned all the wealth in the world—they could not make restitution for the harm which has been done by the private ownership of land; and since they, individually, have not been responsible for the harm done by the system, it would be wiser for both parties to forget their losses—better for both sides to ignore the question of compensation and to wipe the slate clean for a new start.

Those who insist that compensation is necessary to satisfy justice should recall the words of Lowell, written



when there was much discussion regarding possible compensation for the slaves about to be freed:

*"Pay ransom to the owner?  
Aye, fill the cup to the brim!  
But who is the owner?  
The slave is the owner,  
And ever was! Pay him!*

QUESTIONS FOR DISCUSSION

- 1—If an exceptionally good school were established in a town, would this raise wages there? Would it affect rents?
- 2—If a philanthropist were to set up a trust fund in some mill town, providing that each family in that town should receive each year thereafter a Christmas present of \$1,000 would his generosity improve the living conditions in that town? Would the effect be any different if the \$1,000 gift were made as a surprise for one year only? If there would be any difference, what is it and why?
- 3—If a more efficient government in a city made it possible to reduce all taxes there by one-half, would this reduction benefit any one portion of the taxpayers more than any other? Why?
- 4—Chicago once was known as a gangster city. By more efficient police methods her reputation was redeemed. Did this improvement have any effect on wages in Chicago? Did it have any effect on land values?
- 5—If a large enterprise were about to open a branch in a small town, would Labor, the business men, or the land-owners receive any benefit from this expected change before it took place? Which of them would benefit the most after the enterprise had become established?

- 6—Sometimes a town tries to pull itself out of a depression by a “buy in your own city” campaign. Will the result of these campaigns improve economic conditions in these towns? If so, how? If not, what will be the result?
- 7—Does the charging of tolls for the use of a road affect production, consumption, or employment? If so, how and why?
- 8—Why is it that as land values rise, poverty increases? Need it be so?
- 9—Would a division of land equally among all the people (either according to acreage or value), remedy or improve economic conditions, either temporarily or permanently? If so, how? If not, why not?
- 10—If a division of existing wealth were made equally among all the people, and it were known that this was to be followed by a redivision as often as holdings became unequal, what would be the result on production?
- 11—When one buys land, does one buy a material thing? What would be the nature of the land-owner’s loss if the government should adopt the practice of collecting all ground rents?
- 12—Can you find any justification, acceptable to yourself, for private ownership of land? If so, what is it? Can you find any justification for the abolition of private ownership of things, other than the land? If so, what is it?

LESSON

VIII

METHODS OF APPLYING THE REMEDY

*"Of course while another man has no land, my title to mine, your title to yours, is at once vitiated."*—EMERSON in "Man, the Reformer."

*"The time comes for everything. As the time came for the abolition of man's property in man, so the time has come for the abolition of the supposed right in that which involves the appropriation of other people's labor."*—TOLSTOI.—Letter to Federation of Single Tax Leagues of Australia.

WE HAVE DEMONSTRATED THE CHIEF CAUSE OF OUR economic ills and have shown the remedy for them.

We have seen that though our laws permit us to hold land as private property, land cannot be held as private property without violating equity and justice. Ownership of land is only a privilege which permits some to prevent others from working, or permits them to take wealth from those who do work, without giving anything in return. It is this which causes undeserved want amid plenty. The remedy lies in abolishing private property in land.

The next step is to consider means of applying the remedy. It is sometimes asked: "Though justice demands the abolition of private property in land, is it practical?"

Can it be done without a revolution?" In answer it will be shown that not only is the principle just, but that it can be applied readily and without any change in our form of government.

Various methods of application have been suggested—as to which might be best, this would depend on conditions prevailing at the time.

Should we abolish private property in land with one stroke of the pen, as chattel slavery was abolished, changing overnight from private ownership of land to common ownership? This could be done by requiring the owners of land to surrender to the government their title deeds (but not including their titles to improvements on the land); each owner receiving in exchange a short term, or a long term, lease, for as much of the land as he might wish to put to use, and for which he would pay rental; leases providing for periodic reappraisals of values and rentals to correspond.

When this had been done the State would hold title to all land (the improvements thereon still belonging to their individual owners). And since no one would wish to lease more than he could put to use, the great bulk of the land would be freed and could be leased to whomsoever might want it; the government collecting, and keeping for its own expenses as much of the fund as needed. This would make possible the abolition of all taxes on industry and enterprise. (See p. 182n.)

They who recommend this method claim, and quite properly, that it would be no more revolutionary than, for example, was the government's requirement that all gold be exchanged for paper notes. Of course such a change could not be made and be lasting until

enough of the citizens wanted it and demanded it. When it is understood by enough of our people that private property in land is the cause of low wages, unemployment, and the growing struggle of the average man to make a living, it is not improbable that the change will be made quickly, whether or not we now plan to have it so.

Many, however, believe it would be better to follow a more gradual program, introducing the change step by step and thus allowing the adjustment to be a gradual one. There can be no real objection to this slower method, *provided* that always the basic principle be kept in view, and the process be not permitted to stop until completed, i.e., until no one is permitted to profit, in any way, by the mere *ownership* of land.

If this slower method is to be followed the means are already at hand. It has truly been said that "the power to tax is the power to destroy." Private property in land can be abolished easily by eliminating all opportunity to make a profit by mere land-owning. Men do not seek to own land in order to oppress their fellows; they own land in order thereby to make a profit. If a policy of taxation were adopted which would make it impossible for any land-owner to make a profit, purely as a land-owner, then speculation in land would die a natural death.

This could be done by reducing or abolishing one after another the many taxes we now have on labor products, and taking instead for government purposes a correspondingly increased portion of the rental value of all land privately held whether used or not. This process to be continued until there were no taxes of any kind whatsoever, excepting a tax on the fund realized by col-

lecting the full rental value of all land privately held, which fund would rightfully belong to all the citizens.\*

If this method were followed, land titles could still be held as now. But the title would be empty. Ownership necessarily gives power to derive income, profits and all other benefits from the thing owned. This would cease and any concept of "ownership" without this power would be grotesque.

Since the selling value of land equals the capitalization of whatever portion of the rental value the owner is permitted to keep for himself, each succeeding step in taking rental value for the community must cause the selling value of land to decline correspondingly, so that when all site values were taken by the government, land would have no selling value at all. Thus:

If site value of any given land is..	100	100	100	100	100
and the government takes ....	0	25	50	75	100
Net return to its owner will be...!	100	75	50	25	0
The prevailing rate of interest is the chief factor in fixing selling values. If this rate be 5%, the investor will pay for any given land 20 times its net annual income .....					
	20	20	20	20	20
Selling price of land will be.....	2,000	1,500	1,000	500	0

Thus it is seen that if all site values were collected for the community so that land had no selling value,

\*The taking of site values is often called "Single Tax." This is a grave misconception. Justice demands equality of opportunity; this necessitates treating land as common property; the only practical way of doing this is for every occupant to pay into a common fund the annual site value, thus compensating the members of the community for yielding their equal "right" of occupancy. This fund belongs equally to all. A *levy on this fund* by government for its expenses is taxation, and is just taxation. And, if the only tax required, it would be a *single tax*.

there could be no profit made by anyone simply as a land-owner, and all incentive would be gone for the holding of more land than one could put to use.

As the community grows land values arise, the collection of which, by the community, would provide a natural fund with which to pay the cost of the government which the association necessitates. These values which attach to land, unlike the values of labor products, cannot belong properly to any individual or group of individuals (for no individual produces land) but instead must be treated as belonging to the community as a whole.

This fund (made up of the annual site values\* of the privately held land), which would grow as the community grew, seems to be Nature's own provision for the revenues required by a community. It would increase or decrease as the need for it might increase or decrease. When a community is small its land values will be low but it will require only a small fund for the maintenance of its government. As the community becomes larger, its government will require a larger fund for its maintenance, but its land values also will be greater to meet the need. And if site values were used for public expenses, the larceny by government of private property, in taxes, would cease.

No government, properly conducted, should, or would, cost more than it is worth. When one pays the rental value of land, one pays what one believes to be the value to him of the location occupied. If the upkeep of its

\*The site value fund would consist of (1) site value of land used in *production*, which is economic rent; and (2) site value of land used in *consumption* (for residence, etc.), which is *not* economic rent. Regardless of this purely economic difference justice demands that *all* site values be treated as belonging equally to all.

government costs more than all the annual site values of a community, then that government is costing more than it is worth to its citizens.

A tax is "an enforced contribution levied on persons, property or income by the State, for government needs." This sounds arbitrary, and it is arbitrary. Any government can compel any citizen to give up any or all of his property for the support of the State. But here is a fund made up of the site values of the community, which properly belongs equally to all the members of the community; and to draw on this fund, which belongs to all, for the expenses of the government, the benefits of which are enjoyed by all, constitutes the only just tax possible.

If we were not blinded by custom, what would we think of a community which ignored this fund, allowed it to be appropriated by anyone who could get it, and then, in order to support its government, appropriated the property of individuals without regard for equity or justice?

Often the mistake is made of debating as to which of two given principles should be adopted in raising revenues for the support of government—should taxes be levied in accordance with *ability to pay*, or, in accordance with *benefit conferred* on the taxpayer by the community? This takes it for granted that there are only these two principles, but though few recognize it, there is in use today a third principle, and that is to tax in accordance with *need to buy*.

Most of our direct taxes are levied, at least theoretically, in accordance with the citizen's supposed ability to pay. But most of our indirect taxes, which comprise the larger part of all taxes, are raised in accordance with



this unrecognized third principle—necessity to buy. These taxes are passed along from one producer to another until they finally reach the ultimate consumer. He never knows how much he is paying in taxes, but he can be sure that the more he buys the more taxes he pays. A family which uses six loaves of bread a week will pay twice the amount of taxes included in the price of bread that will be paid by a family using but three loaves a week, though the latter family may be wealthy and the former very poor. Therefore, not even theoretically, are these indirect taxes levied either in accordance with ability to pay or in accordance with benefits conferred.

Few realize how large a part of the price paid for a commodity consists of taxes levied on its production. For instance, in 1938, the prices of the items named below included taxes as indicated (from compilations of California Taxpayers' Association):

IN THE PRICE OF	NUMBER OF TAXES	IN THE PRICE OF	NUMBER OF TAXES
Bread .....	52	Suit of clothes .....	105
Canned fruit .....	32	Cotton dress .....	125
Sugar .....	45	Shoes .....	126
Beef .....	127	Overalls .....	148
Bar of soap .....	154	Wire fencing .....	191
Automobile .....	145	Milk of magnesia .....	172
Gas and oil .....	205	Some other drugs .....	378

In some instances where these goods cross state lines, the number of taxes may be greatly increased.

If justice were its aim, no government should have any difficulty in deciding which of these principles to follow in raising its revenue. For to tax either in accordance with ability to pay or in accordance with need to buy does not accord with justice. Both of these are

based on the same motive which actuated the pirates—to take “where the taking is good,” and that is the best that can be said for either of them. They penalize thrift and industry and injure everyone. The only payment the community can demand, justly, from anyone, is payment for the advantages which the individual receives from the community by reason of his location, the value of which, the site value, measures these advantages.

Is it possible to measure the value of the benefits which anyone receives from his location, which value he himself did not create, and to which every other member of the community is as much entitled as is he? The answer is, that for all practical purposes public demand indicates this value; what the average man is willing to pay is its rental value. Today this rent is paid to individuals, but properly it does not and cannot belong to individuals. The value of the land a man holds is fixed by the demand for that land. This demand will be determined by the density and character of the community, by the kind of roads to which the occupant has access, by the nearness of the land to markets, by the quality of the fire and police protection furnished, by the facilities for education, recreation, etc.; and, if it be agricultural, fishing, mineral, or forest land, its natural productivity will be a factor. When land is either rented or sold, these are the things which fix the price paid; but not one of these things is supplied by the owner of the land. All that are not supplied by the community are supplied freely by Nature; and even those supplied by Nature would not give value to the land save for the presence of the community; therefore it is not the individual who should be paid for these things.

When one buys goods at a store one is charged for

the value of the goods purchased and one pays the merchant who supplies the goods. One does not go into the street and make payment to someone who supplied the buyer with nothing, and then go to the merchant and pay a second time for the goods bought. Why should not the citizen pay the community in accordance with the same just and equitable principle as that on which payment for goods is based? What has every citizen had from the community? If he has had the use of a valuable location in the business center of the town, with all the advantages derived from that location, he should pay what these advantages are worth, no more and no less. If he has had the use of farm land where the advantages are not so great, he should pay a proportionately smaller amount; and so on. But in any event, payment should be made to the community which furnishes the advantages, not to a land-owner who has had nothing to do with supplying them. If this is not done, the government (which in any case must be supported) is obliged to compel the land-user to pay a second time (in taxes) for the benefits he has received, because there is no site value fund on which it can levy.

When the purchaser pays his bill to the merchant he is not asked how much wealth he owns; this is something which in no way concerns the merchant. The purchaser pays for the goods he has bought and according to their value. Nor should it concern the government how much wealth any of its taxpayers may own. Every citizen should pay the community for the value of the advantages he receives from the community. The community should receive no less and no one should pay more unless the site value fund falls short of government needs.

Not only is this true, but centuries of attempts have

shown that it is impossible to assess, accurately, a man's "ability to pay." Such attempts result in discrimination, and often in dishonesty, not only among government officials, but also among the citizens themselves, in their attempts to keep their taxes down. It has well been said that our present taxing system should be called "a system to promote civic dishonesty."

And even if the attempt ever should be successful, how unjust! Suppose that of two men, each receiving the same wages, one spends without saving and acquires no property, while the other saves and becomes a property owner. If the second man is compelled to pay more taxes than the first, he is penalized because he saved. Or, of two men who acquire property, one may have bought his with rent he has received, while the property of the other may have been acquired by his own labor. To tax these two men the same because they have accumulated equal amounts of property is to fail to recognize the difference between an earned income, secured by labor, and an unearned income received because of the possession of a special privilege. Such a system is one which discourages labor and encourages idleness.

All attempts here in the United States, and elsewhere, to assess personal property with any degree of equity and fairness have been dismal failures. For six centuries Rome tried determinedly to do this. Officials were permitted to use the rack and the thumb screw, the whip and the cross, to compel her citizens to declare their property fully; but she could not succeed even by these methods. A few centuries later Spain and other countries tried the same cruel methods, especially against the Jews, but here also the attempt ended in failure.

Personal property often can be hidden or moved away;

but even if it could not, no assessor nor group of assessors can tell the true value of all kinds of property. A small painting may be worth \$200,000. while a large one may not be worth \$200. A farmer acting as an assessor would know little or nothing about the value of the stock in a drug store, and a druggist would be equally ignorant regarding property values on a farm.

Even a number of people acting together as assessors would be little or no more successful. Rhode Island once made everyone an assessor by requiring that a man's nearest ten neighbors should act as appraisers of the value of his property, as Rome, centuries before, had required a man's nearest two neighbors to do. Rome, in addition, compelled the assessors themselves to pay the taxes on any property they had failed to appraise in full, if the omission were discovered. But both Rome and Rhode Island found that no accuracy could be obtained even by these methods; nor has any method ever been found by which personal property could be or can be assessed with any degree of accuracy.

As for taxing improvements on land—even though a building cannot be moved or hidden away when an assessor makes his rounds he is forced to guess at its value by a system of averages. Two buildings of the same size looking somewhat alike would probably be assessed alike; though one might be so built that it would need repairs in a year or so while the other might be built to last for generations.

On the other hand, the value of land without improvements of any kind can be determined with a very near approach to accuracy. Land lies out of doors, it cannot be hidden, and everyone in the community has a general idea as to its relative value. Collection of site

value by the community would require no personal statements by the taxpayers; no oaths to be given; no exposure of private affairs; no one would be exempt, as there is no one who does not use land; and if any favoritism were shown, it could be easily detected by making the site value lists public.

It is just as truly robbery for the government to take from any of its citizens, in taxes or in any other way, property which does not belong to the community, as it would be for one citizen to walk into the store of another and help himself to the goods there upon the shelves, without paying for them. Justice requires that the government tax no product of labor, because in the act of taxing the government confiscates a part of the value of the thing taxed, and, to that extent, the producer of that thing is deprived of what is his own.

But it may be asked: "Would not the collection of ground rents be a method of taking from the producer a part of what he produces?" Let us see.

All men must use land in order to live and no one is justly entitled to have a better opportunity to earn his living than has any one of his fellows: therefore, everyone has an equal right with everyone else to use any and every location on the earth's surface that he may wish. But in order that the user of land be encouraged to make the best possible use of his holdings, he should feel assured of being permitted to keep what he might produce therefrom. If one were afraid some other would drive him away after he had built his factory or planted his crops, then the factory would not be built nor the crops planted. To obviate this fear, holders must be given exclusive possession of the land they use, either by lease or in some other way. This privilege of having

exclusive possession of a given piece of land, can rightfully be granted to an individual only by the remaining members of the community, who, in granting the privilege, relinquish their own right to use that particular location. If he to whom the privilege is granted pays to the community (the other members of which, in effect, are selling to him their right to use the same location) the full rental value thereof, then justice is done to both parties, and the granting of the privilege harms no one.

More than this, a system based on this principle would give to everyone in the community an equal opportunity with everyone else to earn his living. To illustrate: In diagram 21, the land in a given community consists of

	60	60	60
	80	80	
Wages	100		
	100	80	60
Rent	0		
	20	0	
	40	20	0

No. 21

three grades. A arrives first and takes up the best land. While A is here alone none of the land has any rental or selling value. Now B arrives. He, too, would like some of the best land, but since A already has it all, he must content himself with the second grade. The rental value of A's land now becomes 20. It is not A who causes the increase in value; it is caused by the advantage which the use of the 100 land gives over the use of the 80 land. When C arrives he must use the 60 land.

In a condition of this kind (where by working six-tenths of a day, A can produce as much as C working all day) how can equality of opportunity be made possible? If the community will collect from the occupant of each piece of land its full rental value, then each one, by applying a given amount of labor of a given efficiency, after paying his rent, will have left for himself the same amount of product as either of the others; and no one of the three will have any economic advantage over another. That is:

If A using 100 land pays 40 rent, he will have left 60 for himself.

If B using 80 land pays 20 rent, he will have left 60 for himself.

If C using 60 land pays 0 rent, he will have left 60 for himself.

This demonstrates how, by exerting equal energy and ability, each man will get 60 for himself, regardless of the grade of land on which he works.

But suppose A works but half the time that year, producing only 50; while B, by working longer or harder than the average, makes his opportunity yield 100; and C, meanwhile, pursues the even tenor of his way. The net returns (wages) received by each, that year, will be as follows:

If A, producing 50, pays 40 rent, his wages will be 10

If B, producing 100, pays 20 rent, his wages will be 80

If C, producing 60, pays 0 rent, his wages will be 60

It is no injustice to A if his net returns are but 10, so long as he has an opportunity to produce as much as B or C if he likes; nor has B inflicted any hardship on A



or on C by working harder than they and so securing more for himself, if they have the opportunity to do the same.

The collection of rent by the community, as here illustrated, would not penalize the industrious nor the ambitious; neither would it tend to reduce all to a common level. It is a proper function of government to keep economic opportunities equal to all, but one's wages should depend on one's own exertion and ability. Secure to each individual an equal opportunity with all of his fellows to earn his living, then leave him free to make whatever use he will of his opportunity.

In addition to insuring equality of opportunity among all men, the collection by the community of the full rental value of all land privately held, is, besides, the only method ever proposed by which the producer can be assured of getting all he produces. But, it may be objected, if A and B produce 100 and 80, respectively, from the lands they use, and must pay 40 and 20 as rent, is it, then, correct to say they receive all they produce?

In answer, suppose A is a shoemaker, B a carpenter and C a farmer. They work and exchange their products, and at the end of a given time, all three will have shoes, buildings and farm products. Each did not make all of these things for himself; he got some of them by exchanging what he did make for other things he wanted made by someone else.

Similarly, A pays 40 to the community as rent. In return for this he receives something that he did not produce for himself. The payment of the highest rental value permits him to do business (or to live) where the advantages given by the community (or the advantages offered by Nature) are the greatest. He may be nearest

to the best schools, stores, parks, libraries, movies, etc.; or he may be using the most productive oil or mineral deposits; or his markets may be the nearest and best—he receives the best of whatever it is that gives value to land in that locality. He must pay to the community the rental value of the land he monopolizes (whether he uses it or not) in order to equalize opportunity and do justice to those prevented from using this same land. But this rent is not just taken from A with nothing given in return for it; he has exchanged four-tenths of the shoes he produces for the advantage enjoyed by him in occupying that location. He and the community have exchanged value for value just as truly as did he and C when they exchanged potatoes for shoes.\*

B chooses to live farther out where he pays less rent. The fertility of his land may be greater, but his roads may be poorer, the fire and police protection inferior, his schools, markets, stores and other advantages farther away. C lives still farther out, where the advantages enjoyed are the least enjoyed by anyone, and where he therefore pays no rent.

Under this system, each will receive all he produces. Just as he exchanges a part of his product for the things produced by others, so he exchanges another part for the advantages of the location of which he has exclusive possession.


This proposed change would necessitate determining the value of land separately from the improvement on the land. This first step has already been taken in some cities and states; probably nowhere is it now (1948)

\*As the community grows, the rental value will increase, but this difference is offset by the increased productivity of the location due to the growth of the community (See Lesson IV).

being done in a more practical way than in New York City. Valuation maps for the land alone, free to the public, are published every year. From these maps, any land-holder can determine the valuation placed on his land and compare it with that of neighboring lands. He then can judge as to whether the comparative values are equitable. If he has reason to believe that any unfairness has been practiced, he can protest and give his reasons.

With this separation of values as between land and improvements the way is prepared for determining the rental value of any given land; without determining which it is impossible to know how much each individual should pay for the advantages he receives from the community (see p. 182n).

To illustrate how the proposed change in our taxation system can be made if it be held desirable to make it in a gradual way: here are six building sites, all of equal value, but only one of which has been improved by the building of a house. At present these would be taxed somewhat like this: \$10.00 for each vacant lot and

\$10.	\$10.	\$10.	\$10.	\$130.	\$10.
					

$$(5 \times \$10.) + \$130. = \$180.$$

No. 22

\$130.00 for the house and lot. The one land-owner who has built upon his site is the only one who has added to the wealth of the community. To build his house not only has he employed local labor, but he has stim-

ulated employment over a wide area to produce the materials needed in the construction of the house; and he has made accommodations for another family to live in the town, which will do its share toward increasing employment there. In return he is penalized to the extent of \$120.00 every year, as though he had harmed the town instead of benefiting it.

The other five land-owners, who actually have harmed the community; who, by holding their land idle, have decreased production and employment, and have forced people to go farther out and use poorer lands (thus helping to decrease all product and all wages)—these land-owners are rewarded by lower taxes, and encouraged to continue to hold their land out of use while awaiting an increase in selling price.

Suppose the full rental value of each of these sites were \$30.00 a year, and suppose each of these six land-owners paid this \$30.00 annually to the community. The total amount collected would be the same as before,

\$30.	\$30.	\$30.	\$30.	\$30.	\$30.
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$$6 \times \$30. = \$180.$$

No. 23

but none of those paying it would be subject to discrimination and injustice. If the sites, as stated, were all of equal value, it would mean that each of the owners had benefited equally with each of the others by every advantage the community offered; and that each had

paid the community for value received. If this were done generally, no one who had improved his location, be it building site, farm, mine, or any form of land, would be penalized for the improvement made.

This change from a system of taxing anything and everything, to a system of collecting only the site value of land from the land-holder, would apply not only to town sites, but to lands of all kinds—mineral lands, coal and oil fields, railroad rights of way, forest lands, farm lands, as well as to those lands in the center of large cities, the most valuable of all. The holder of land of any description, whether used or not, would pay its site value, and everyone would be free of all taxes on his personal property and on his improvements; free from all income, excise, tariff, inheritance and all other taxes imposed directly, or indirectly, on any product of labor.\*

It is sometimes contended that the owner of the improved land is the only one who gets an income from his investment, and therefore he should pay a larger share of the government's expenses. Aside from the fact that this is but another form of the "ability to pay" argument (which is based on the unjust principle of communism), the assumption is false that the vacant lot owner gets no return from his investment. Though he may not get a regular income, every improvement in the community which makes people want to live there tends to increase the value of all the sites in that neighborhood, whether improved or not; and it will not increase the

\*Opportunities would be equalized and justice satisfied, if, after collecting all site values, the community were to distribute the money among its citizens, and then require a contribution from each to pay the costs of government; but it would be simpler for the community instead to keep the fund after it has been collected and use it for its own expenses, or as much of it as needed.

value of the improved site a whit more than it does the value of any unimproved site there, equally well located. This increased value the vacant site owner will get in a lump sum when he sells, and it is the expectation of getting this return which prompts him to hold on.

Again, it is sometimes contended that if ground rents are taken from the land-holder by the government, he will in turn collect them from the user by increasing the selling price or rent of his land. In answer it is but necessary to point out that the only reason land-owners do not *now* charge more for their land is because they cannot get more. Land rent is fixed by an economic law and is not affected by taxation. An increased tax on a labor product can be, and will be, added to its price; but an increase in the portion of site value taken by government just as inevitably has the opposite effect—that of reducing the selling value of land (see p. 164).

The collection of site values would be an ideal method of supporting government because of its simplicity, its certainty, its ease of collection and its accuracy; but its advantages as a fiscal measure are trivial in comparison with its chief benefits—the equalization of economic opportunities, the securing to each producer of the full product of his labor, and economic freedom for all. This is the goal and should always be kept in mind.

Suppose mankind were asked to picture for itself an ideal social condition. Could it picture a condition superior to one in which there was an incessant demand for labor on the one hand, and unlimited opportunities for a man to employ himself on the other? Where, because there were more jobs than workers, there would be no necessity for men to bid against one another to obtain employment, and where, therefore, every-

one (both employer and employee) would get the full value of his labor? Where material progress always would bring an increase in wages and a decrease in prices? Where everyone always would have an equal opportunity with everyone else to prove and profit by his worth and ability? And where, because there would be no special privileges, no man to any extent could be master of another, and no man a slave?

The goal is economic freedom—unbounded opportunity of employment for Labor and of capital by Labor, and security in the possession of all one may produce.

When one realizes that the main thing which stands in the way of making this ideal a reality is the failure of the community to collect site values instead of allowing them to be privately appropriated, then the importance of making the change stands out in its full significance.

We must free the earth before man can be free.

QUESTIONS FOR DISCUSSION

- 1—Does the employment of Labor in the construction of public works, financed either by taxation or by bonds, place increased purchasing power in the hands of the people as a whole?
- 2—Why is the rent higher on a busy corner than on a side street? Why are not prices higher on the busy corner where rents are higher?
- 3—What is the effect of special privileges? Do they tend to grow less valuable after being granted in the same way as wealth tends to decay after being produced?
- 4—What is meant by equality of opportunity? Can equality of opportunity and special privileges exist at the same time? Why?

- 5—The term “real estate” includes both land and improvements. Are the interests of the land-owners and the interests of those owning improvements identical? Are they opposed to each other? If they differ, how do they differ and why?
- 6—Is the speculator’s need for a title to land any greater than such need by a user of land? Why?
- 7—How can an individual satisfy the rights of others to the land he monopolizes?
- 8—Is wealth ever produced by the community, as such? If so, when and how?
- 9—Is it discrimination to compel land-holders to pay all the costs of government? If so, who is discriminated against and how?
- 10—A given plot of land would sell for \$6,000 if vacant. On it is a worthless building which will cost \$1,000 to remove. Until this building is removed the plot will sell for but \$5,000. If a man removes the building has he increased the value of the land?
- 11—Why should one favor exemption of buildings from taxation? Do they not require police protection, fire protection, etc.?
- 12—Given two building sites of equal value, one vacant and the other occupied by a \$10,000 residence. Is it fair or unfair to require both owners to pay an equal amount to the community? Why?

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Separation of the value of land from the value of improvements on the land presents no serious problem (see reference to New York City’s practice, p. 177). Nor is such leasing of the land a novel experiment. For instance: Ocean Grove, N.J. (population about 8,000) is all built on leased land. In case of nonpayment the building or other improvement is sold and out of the proceeds the overdue site value is paid. In this instance the site value goes to a private company which, under our present laws, is recognized as the “owner.” Instead, it should be collected by the community, making it impossible to profit by mere land holding. This illustration simply shows one method of land leasing that has proved practical.



LESSON

IX

EFFECTS OF THE PROPOSED CHANGE

*"The land, the earth God gave to man for his home, sustenance and support, should never be the possession of any man, corporation or unfriendly government, any more than air or water, if as much."*—Abraham Lincoln in DR. ROBERT BROWNE'S "Abraham Lincoln and the Men of His Time."\*

MANY REFERENCES HAVE BEEN MADE IN THESE lessons to the benefits which might reasonably be expected to result from the abolition of private ownership of land. Let us now assemble these.

This change (from a system of taxing anything and everything to one in which nothing is taken by the government excepting the rental value of all land privately held), because it seems so simple and so unpretentious, and because they do not see that it offers a complete solution, is rejected by many of those who are eager to solve our economic problems. They contend that we need something more than a mere "fiscal re-

\*Of the many famous men who have endorsed the principle which forms the basis of the argument presented in these lessons, including Abraham Lincoln, Thomas Jefferson, Henry Buckle, Count Tolstoy, Ralph Waldo Emerson and Henry George, the last named is the only one to offer a detailed method of applying the principle (see "Progress and Poverty," a book that should be read by every thoughtful person).

form" to establish justice. Of course this is true, but the change in our land tenure system discussed in these lessons is not a mere fiscal reform. Without it we cannot equalize economic opportunities unless we destroy the liberty of the individual. Without it all efforts to establish justice among men must inevitably fail.

When men do not need to worry about having employment at good wages any more than they now need to worry about having air to breathe; when each has opportunity to work as, if, when and where he will, and is sure of getting the full product of his labor; then the great mass of our economic ills will quickly be gone, and with them many other ills not usually thought of as having an economic cause. As already shown, the taking of site values by the community speedily will bring about a condition in which everyone can know with certainty that not only he, but everyone else, will be able to look forward to the future without fear of want or destitution; in health, in sickness, or in old age.

To specify more particularly the effects on different groups of preventing the private appropriation of rent:

a—Of all the groups which constitute society, there is but one which will not receive great pecuniary benefits from the proposed change. This group consists of those relatively few people whose incomes from their land holdings are much greater than their incomes as laborers, or as capitalists, or as both; but even these will not need to suffer greatly, nor for long, because unlimited opportunities to labor will be open to them, as to everyone else.

b—It is sometimes asked whether the change will not bring at least temporary hardship to him who may have worked and saved, possibly for years, in order to buy for himself a home or a business. The answer is that the

change will bring no hardship to anyone who has invested in land, if he uses it. It is true that the selling value of the land under the home or the business will be gone, but its use value will not disappear, and the land will continue to serve the man's purpose whether or not it has a selling value. Even if the home-owner wishes to sell and buy elsewhere, he will find it no hardship to have had the selling value of his land wiped out, because the selling value of all other land similarly will be gone. He will be able to sell his building, as at present, and when he comes to buy elsewhere he will need to buy only another building—he will not need to pay for another site, for he will get that free of purchase price, needing to pay thereafter only its site value to the community, instead of taxes.

For instance: suppose a house and site, together, are worth \$10,000.; with, say, \$3,000. as the value of the land and \$7,000. as the value of the house. When the owner sold, he would not receive the \$3,000. value of the site, purchased before the change took place, but only the \$7,000. for the house. But, since the selling value of all other land likewise would have disappeared, it would require only \$7,000. to secure an equally good house in another equally good location.

In addition, all the taxes which this home-owner now pays on his home, his business, his income, his personal property, and on everything he eats, wears and enjoys, would be totally abolished; constantly, the cost of everything he bought would tend to decline, while his wages constantly would tend to increase with the introduction of every improvement in machinery, and every advance in the arts and sciences. He would have constant surety of employment; and all fear of want for himself, his

children and his children's children would be gone. Would the home-owner be injured by the change!

c—When we suggest taking the site value of land for the support of government, another frequent inquiry is: "Would not such a system work a dreadful hardship to the farmers?" The benefits to the farmers would be fully as great as those to the home-owner and the business man—proportionately they might be greater because now no other group in the community has its property taxed at such a high percentage of its value as do the farmers. For example, note the assessed values of property, 1938, in two of New Jersey's counties:

Hudson County—Real estate, \$892,391,607., Personal property, \$80,549,548.

Hunterdon County—Real estate, \$23,815,233., Personal property, \$50,112,542.

Can anyone believe that the personal property values in densely populated Hudson County are but one-tenth of the value of the real estate there, while in rural Hunterdon County personal property values are double the value of the real estate? This is but one example of the great injustice to the farmer of our present methods of taxation.

On the average, the value of land used for farming is less than that used by any other industry; and since the farmer (like all others) would be charged a rent determined solely by the value his land would have in an unimproved condition, payments made by farmers would be relatively very low. In addition, the farmer, like other business men and the home-owner, would be freed from all taxation on his buildings and other improvements; on his crops, his machinery, his cattle and other personal

property; on his income and on everything else produced by labor.

Farmers would not be driven to poor or outlying lands to raise their crops. Most farmers now need to travel long distances to sell their products, often passing thousands of acres of fertile, but idle, lands near to town and city—lands held at such high prices that they could not now be used profitably for farm purposes. If these lands could be had for farming without a purchase price, the farmer then could use them, and because he could produce more there, his wages would be higher and the cost of his goods to the consumer, lower.

But, above all, the vastly increased purchasing power of the consumers of farm products would correspondingly widen the farmer's market. Every consumer would be able to buy, not only all the bread and meat; all the milk, butter and eggs; all the fruit and vegetables he or she could possibly want, but also those other products, such as shoes, clothing, rugs, linens, furniture, and innumerable other things which have their beginnings on the farm. Could the change possibly injure the farmer!

d—So we could take any group\* in society, excepting the very small one already mentioned, and show how it would benefit by this proposed change; but this is unnecessary. If, instead, we consider the effect this change will have on Labor, we then will see its effects on nearly everyone in the community. For this purpose consider the following chart. It presents a before and after picture:

\*The business man whose rent increases as fast as his business grows, leaving him the same net return as before, is but a "share cropper."

*Under Present System*

The Land-owner receives and  
Labor Loses

- 1—All rent;
- 2—All selling price of land;
- 3—Increased rents as poorer lands are brought into use;
- 4—Power to deny Labor access to land;
- 5—Most of interest paid;
- 6—\*Most of the pecuniary benefits which follow inventions and material progress;
- 7—\*Most of the pecuniary benefits derived from government expenditures and from improved governments;
- 8—Relief from practically all taxes.

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The above items together constitute most of the wealth produced by Labor. Under our present system it goes to the land-owners.

\*The land-owner appropriates these when he collects rent from or sells his land.

*Under Proposed System*

Labor will receive

- All wages;  
Access to land of even the highest grade without payment of a purchase price;  
Increased wages as better lands are made available;  
Unlimited opportunities for employment;  
\*Practically all of interest paid;  
\*Practically all of the benefits which come from inventions and material progress;  
\*Practically all of the benefits derived from government expenditures and from improved governments;  
Relief from all taxes on labor products and from income and tariff taxes.

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The above items together constitute most of the wealth produced by Labor. All of this should and would go to Labor.

\*Labor will receive all of these items except that portion which will go directly to those who give personal service.

Referring to No. 1 and its counterpart—they are self-evident.

Nos. 2, 3 and 4 will be considered together: to see how the proposed change will convert the one picture into the other, we need only remember that seldom is rented land held out of use. Land is held out of use by

an owner who hopes to make a profit simply by holding it; not by a lessee—his hope of profit (if he is paying full rental value) is by use. So long as land is held out of use by its owner the carrying charges on it must be paid out of other income. If the community will collect for itself the full rental value of all lands held, and this is known to be its policy, no one will be able to get or will hope to get a profit from holding idle land. In order to make the land earn its rent, every land-owner will need either to use the land himself, or to hire Labor to use it. This will mean that all land which can be put to profitable use by its owner will be used, but when a holder finds that he has more land than he can profitably use, land which every year shows him a loss and which he must know will continue to show him a loss, he will abandon it voluntarily or will fail to pay the rent upon it, in which case it will be taken from him. This abandoned land will revert to the State and be ready for renting to anyone who wants it.

Millions of acres from which would-be purchasers are now barred by high prices, will be freed in this way. ✓  
Some of this land is, potentially, the most productive ?  
in the country; for our idle lands are not only farm lands, but comprise all kinds of land, including mineral, coal, oil, gas, and timber, as well as valuable sites in towns and cities. So far as being of any benefit to producers, these idle lands might just as well not now exist. If the community collected all site values for itself, the effect would be similar to that of the discovery of a new continent of fertile, productive, easily accessible land; for fully one-half to two-thirds of all the land in the United States would again become free—as free for anyone to use as it was when the Indians held it. This freed land

would make it possible for untold thousands to find opportunities to employ themselves. All classes would benefit—both producers (Capital and Labor, employer and employee) and those who rendered personal service. While the latter do not produce wealth and earn wages (see p. 25), a condition of “more jobs than men” would benefit them equally with “laborers.”

Not only would one find it easier to go into business for one's self, but because of the using of the better grade lands (for certainly no one would continue to use the poorer grades of land when better grades were freely available) all production and all wages would be increased. To illustrate:

If  $\frac{2}{3}$  of each of these seven grades of land were held out of use, the condition would be:

	in use	in use	in use	in use	in use	in use	in use
	100	80	60	40	20	10	5
Rent	95	+ 75	+ 55	+ 35	+ 15	+ 5	= 280
				Wages	$7 \times 5$		= 35
				Product (wages plus rent)			= 315

No. 24

With the better grades of land freed and brought into use, the condition would be:

100	80	60				
100	80					
100	80					
Rent	$(3 \times 40)$	$+ (3 \times 20)$				= 180
Wages	$7 \times 60$					= 420
Product (rent plus wages)						= 600

No. 25



These higher wages would bring into the market the greatest of all employers of Labor, i.e., Labor itself. Such a demand would arise for goods, and for labor to produce these goods, as the world has never yet known. This demand for goods would not be satisfied until everyone had every material thing he could wish for. This, of course, would be never; because constantly new generations would be appearing with new demands. The spectacle of men able to work and willing to work but unable to find a place to work, would be unthinkable.

Regardless of how great a man's wages, or how much he might have saved, he could harm no one with the wealth he possessed; for the only way even the most greedy individual could get a return from his wealth would be by using it himself, or by loaning it to someone else to use; by doing either of which he could not but benefit society. No one could use his wealth to purchase land, whereby to live without rendering any service to others, while taking from others opportunities to work. Since always wages are fixed by the margin of cultivation or by the subsistence level, no one would need to accept low wages so long as there was plenty of high grade land free for use. There would be no group which could exploit Labor even if it wished to do so.

No. 5—To see why it is true that most of the interest now paid goes to the land-owner (though of course not as land-owner, for only rent can go to a land-owner, as such), but that with the abolition of the private appropriation of rent practically all of it would go to Labor, we must see clearly the source of capital. Capital can come into existence only after wealth has been produced, saved, and then put back into production as capital.

Capital is very necessary in our modern world, but with rent taking such a large part of the wealth produced, and with wages so low, only a small part of the capital now available can come from savings made from wages. The great reservoir from which is drawn most of the capital now used is made up of wealth which was collected by the land-owners as rent. Any interest received on this capital will go to those who collected the rents which were converted into capital, i.e., the land-owners. Therefore the land-owners now receive not only all rents, but also all of the interest on that part of capital made up of savings from rent. Since this constitutes, by far, the greater part of all capital in use, it is the land-owners (not as land-owners, of course, but as capitalists) who now receive the greater part of all interest.

Under the proposed system no individual would receive any rent. Practically the only source of capital then would be, could not but be, savings from wages; and since wages would be much higher than now, it would be easy for Labor to save if it wished to do so. If anyone saved a part of his wages and converted the savings into capital, then any returns received on this capital would go to him who saved his wages to make the capital; who, of course, would be the laborer. Since practically all capital then would belong to Labor, Labor would get practically all of the interest paid. The only others to receive interest would be those whose incomes came from giving personal service and who saved a part of their incomes to convert into capital.

No. 6—To see that with the abolition of private property in land, Labor would receive practically all of the benefits which would come to society as the result of

mechanical inventions and advances in the arts and sciences, which benefits now go chiefly to land-owners, refer to diagram 26, showing present conditions. Here with two-thirds of the land held out of use, aggregate wages are 35, and aggregate rents 280.

in use	in use	in use	in use	in use	in use	in use
100	80	60	40	20	10	5

$$\text{Rents } 95 + 75 + 55 + 35 + 15 + 5 = 280$$

$$\text{Wages } 7 \times 5 = 35$$

No. 26

If, under our present land tenure system, mechanical inventions or improvements were to make it possible to double the product from these lands, then the rents would be doubled—increased from 280 to 560. If the change had taken place rapidly, for a short while wages also might be doubled, and aggregate wages brought to 70, as shown in No. 27.

in use	in use	in use	in use	in use	in use	in use
200	160	120	80	40	20	10

$$\text{Rents } 190 + 150 + 110 + 70 + 30 + 10 = 560$$

$$\text{Wages } 7 \times 10 = 70$$

No. 27

But if this doubling of production made it possible to make a living on what is now  $2\frac{1}{2}$  land, this would soon be brought into use; and as this land would then produce 5, all wages would be brought back to 5, making aggregate wages 40, as in No. 28. This shows how, so long as men can be pushed out to poorer lands and

forced to bid against one another for opportunity to work, the pecuniary benefits made possible by material progress will go inevitably to those who own the land.

in use	in use	in use	in use	in use	in use	in use	in use
200	160	120	80	40	20	10	5

Rents

$$195 + 155 + 115 + 75 + 35 + 15 + 5 = 595$$

$$\text{Wages } 8 \times 5 = 40$$

No. 28

Greatly increased production and wages would result even with existing methods and machinery if better grade lands were made available, as in No. 29; but if these lands were made available and even a moderate degree of improvement were made in methods and machinery, the result would be what at first thought seems fantastic, as in No. 30. Here a mere doubling of production, since there would be no unemployed to drive wages down, would make it possible to live twice as well as before, with the same labor.

100	80	60				
100	80					
100	80					

$$\text{Rent } (3 \times 40) + (3 \times 20) = 180$$

$$\text{Wages } 7 \times 60 = 420$$

No. 29

With the proposed change made, anything that increased the ability of men to produce would inevitably increase wages. Instead of dreading improved methods and machines, as now, Labor then would be clamoring for more of them, for everyone would know that im-

200	160	120				
200	160					
200	160					

$$\text{Rent } (3 \times 80) + (3 \times 40) = 360$$

$$\text{Wages } 7 \times 120 = 840$$

No. 30

proved machines and methods would certainly raise the standard of living. No one then could think of a labor-saving device except as an unmixed blessing for the whole community.

No. 7—To see that when rents are no longer privately appropriated most of the benefits derived from government expenditures and from improved government would go to Labor instead of, as now, to the land-owner, consider: improvements made by society now tend to raise the value of land, which means that the community makes a gift to the land-owners of practically everything it spends for improvements. To pay for these improvements the government collects taxes from everyone (even the poorest must contribute because no one can buy even the meanest food, clothing or shelter without paying taxes), but since these improvements increase the demand for land and thereby raise land values, a sum, equal to their cost, soon or later must find its way to the land-owners. Wages are not increased by such improvements, as are rents.

When all site values are collected by the community, and land consequently has no selling value, the chief beneficiaries of public improvements will be the users of land, not the owners. Since practically all, then, will be laborers, these benefits must accrue chiefly to Labor. The only others to benefit will be that extremely useful

number who make their living by giving personal service.

In addition, the change which is here proposed will benefit all by decreasing the cost and complexity of government and by eliminating the chief opportunity for dishonesty on the part of politicians and public officials, as well as its greatest incentive.

The chief source of corruption of public officials is directly connected with our present land tenure system and the bad methods of taxation which it necessitates. Every tax on a commodity, on a business, or on a class, opens the way to bribery, fraud, discrimination and perjury. No one denies this. This source of corruption would disappear if there were no taxes on persons, property or income, and the rent of land constituted the only source of public revenue. Land values are so easy to ascertain that if bribery were attempted it could be detected quickly and the collection of land rents, on the whole, would be fair and just to all.

There could be no buying of land by public officials or others, in anticipation of public improvements, in order to resell to the community at a higher price. Land would have no selling value, and the community would no more need to purchase the land it needed than would the individual.

Regardless of the idealism which may actuate the leaders of a political campaign, all such campaigns cost money. They who will contribute most liberally are they who hope to benefit by some proposed change, or by keeping things as they are, as the case may be. It is the wool growers and not the lumbermen, nor the grocers, who will advance money to support a campaign for a tariff on wool. It is chiefly they who hope to be

able to rent their properties for saloons, gambling houses, brothels, etc., who want and will pay for a campaign for an "open town." If any change is proposed which is expected to increase land values in a given locality, the price of that land and its rent will go up. It is from these rents that a political machine draws most of its funds to finance its operations; therefore the collection of site values by the community would tend to put political machines out of business. If large sums could not be secured for "protection" of various kinds, there would be few, if any, "crooked politicians."

So much for the chief source of dishonesty and graft among public officials; but in addition to removing the cause of these, the proposed change also would decrease very greatly all legitimate governmental expenses.

Cities would grow naturally, being neither congested because of high land prices, nor, unduly extended by reason of vacant or but partially improved lands. The holding of unused or but partially improved lands within a city increases far beyond any legitimate need the cost of supplying streets, water, light, gas, sewers, police and fire protection, and other services. A natural development would mean a lowering of all these costs.

A few years ago the authorities of Los Angeles estimated that 2,000 miles of streets had been constructed in front of *vacant* lots within the city limits, requiring annual maintenance charges of \$1,435,869. Counting losses from delinquent taxes and other costs, it was estimated that these uninhabited miles of streets increased the city's expenses \$3,000,000 annually—which did not include the cost of installing the improvements.

Few cities have attempted, as did Los Angeles, to estimate the increased expenditures necessitated by install-

ing public improvements or furnishing services where not needed, but this burden is carried by every town and city in the country. Chicago has enough subdivided acreage to house 10,000,000 more people. New Jersey has about 4,000,000 inhabitants, but it has enough sites in its various subdivisions, already laid out (1946) to house 8,000,000 more. Until New Jersey has a population of 12,000,000 people, the cost of services to these vacant lots, even if no more be added, will be a great loss to all of its people excepting the land-owners. Similar instances abound everywhere.

Not that all land-owners profit from their investments—quite the reverse is true. But just as it made no difference to the slave whether his owner lost or profited by owning him, so the injurious results to the community are the same whether the holding idle of natural resources brings a profit to the holder or not.

Costs of government would be reduced in many other ways, among which are:

a—The cause of relief doles and other forms of public charity would be gone. People would be ashamed to accept such payments even if they were offered (which they would not be), if it were known by all that anyone could get work at good wages whenever he wanted it.

b—Very many of the cases in our civil courts arise from disputes over land titles or something connected with the land. There would be comparatively few, if any, such cases when the community owned the land and all occupants were paying site values; thus the cost of our civil courts would be greatly decreased.

c—The opening of opportunities for all and the consequent rise of wages would soon eliminate from society those thieves, swindlers and other criminals who



develop because of poverty or the fear of poverty. Thus the administration of the criminal law also, with its police, prisons, etc., would soon cease to be the drain it now is on society.

d—Since in no country is there too little land to support its own people if they could get access to it and could trade freely with the rest of the world, wars of conquest would cease as their main cause would have been removed. Therefore, military expenses also would be reduced to a minimum.

e—If we eliminate the above military expenses, the cost of charity and the cost of preserving order and administering justice, we find that the bulk of the remaining costs of government consists of what is paid for the assessing and collecting of taxes themselves, for the detecting of evasions of taxes and the punishment of the evaders, and for the checking and rechecking of taxes drawn from many varied sources. These costs would all be replaced by the relatively low cost of merely assessing and collecting site values.

The legislative, judicial, executive and military functions of government would be so simplified that the whole cost of government would be very greatly reduced.

No. 8—When government now collects taxes, it collects (at least theoretically) only what is needed to pay for the services it renders. As we have seen, these services at any given location are almost certain to increase the demand for land there and this increased demand is followed by higher land values. Although, nominally, the land-owner today may pay taxes for his share of these services, he is later reimbursed when he collects rent for his land or sells it. Therefore, the land-owner

really pays little or no taxes. Taxes for the support of government actually are paid by land users, who thus pay twice for what they get—once to the land-owner and again to the community. If there were no private appropriation of site values, the land-user would pay but once (to the community) his share of the costs of government—even this being returned to him in services.

To recapitulate: when site value is taken by the community and used for its own needs, Labor will receive not only greatly increased wages, but practically all interest, practically all the benefits which may come as the result of material progress as well as from improvements made by or in the government itself, and it will have a better and a cheaper government. Land will have no selling price, and there will be unlimited opportunities of employment open to all.

Therefore, it is no exaggeration to say that under this system practically all of the wealth produced will go to Labor.\* Involuntary unemployment, low wages, and undeserved poverty will be unknown. And all of this increased prosperity will come to Labor without the imposition of one extra burden—for Labor now pays rent (often artificially high) for the land it uses. And, too, Labor will receive all of these benefits without the loss of one bit of its personal liberty, for there will be no need of government regulations or restrictions of any

\*While the return to those rendering personal service is not economic "wages," any change which would benefit Labor by raising general wages could not but prove equally advantageous to those rendering personal service. A condition of more opportunities for employment than there were applicants for employment would insure to everyone the full value of the service he rendered, in whatever field he might be working. He who was rendering personal service always would be free to become a laborer and vice versa.

kind, excepting such as may be necessary to prevent one from infringing on the person or property of another; and when everyone knew he had equal opportunities with all his fellows, the incentive to infringe on others would be slight.

When we consider the evils which arise because government permits continuance of the present system, we are forced to a realization that the government should collect all site value, even if, after it had been collected, it were thrown into the sea (and the people taxed for the support of government, as now); because, only in this way is it possible to insure that no one will have an economic advantage over any other.

While this change will not make men moral or industrious, it will open fair and equal opportunities to all; it will remove the artificial hindrances to success by which honest and industrious men are now hampered; and it will permit men to be as considerate of others as they may like to be, without fear of the consequences.

#### QUESTIONS FOR DISCUSSION

- 1—Is there not plenty of "cheap," nearly "free," land now for those who want land to use? If so, why do they not use it? If people can get cheap land to use, how would they be benefited if all selling value of land were destroyed? What does "cheap" really mean when applied to land?
- 2—Would the benefits from destroying private property in land be increased or decreased by destroying private property in anything else in addition to land? Explain why?
- 3—Are property rights in labor products infringed by extending property rights to include land? Why?

- 4—Can success attend *any* effort to raise wages and insure permanent prosperity while our present land tenure system remains in effect? If so, how? If not, why not?
- 5—What is the effect on production of taxing labor products?
- 6—With private property in land abolished, could the possessor of a great fortune use it to injure anyone else? If so, how? How could a great fortune be accumulated?
- 7—With private property in land gone, the land user would pay all costs of government. Would this be just to both land users and all others? If so, why? If not, why not?
- 8—What would be the effect on corrupt politics and crooked politicians of abolishing private property in land? Why?
- 9—If government officials could not make up deficits by increasing taxes, would this lead to efficiency or to inefficiency in the conduct of government? Why?
- 10—If all site values were taken by government and if all the land were in use, what would be the effect of technological improvements on rents, on wages? Who, then, would get the chief benefits of such improvements?
- 11—If all lands were taken over by the government and all then living consented to an issuance of government bonds, the proceeds to be used for paying the landowners for the land they surrendered, would this make "compensation" just to those then living? Would such a program be just to those born tomorrow?
- 12—Could the full results of the proposed change be realized if it were adopted by a single municipality? Why? Would the result be different if it were adopted by a country like the United States? Why?

LESSON

X

THE TRUE REMEDY VS. OTHER PROPOSED  
REMEDIES

*"The last end of the State is not to dominate men, nor to restrain them by fear; rather it is to so free each man from fear that he may live and act with full security and without injury to himself or to his neighbor."—SPINOZA in "Tractatus Politicus."*

*"Beyond maintaining justice, the State cannot do anything without transgressing justice."—Spencer in ELIOT'S "Herbert Spencer."*

WE HAVE BEEN DISCUSSING THE MAIN CAUSE OF OUR economic ills, and their cure. It has not been possible to cover all details; if however in studying the subject, the student will keep fundamental principles clearly in mind, he will find that the details tend to fall into place of themselves.

There is still one very important question, however, discussion of which should not be omitted, as it comes so frequently to the surface, i.e.: "Is not the abolition of private property in land a step toward some form of collectivism?" To this question the Socialists often reply: "The Single Tax is all right. We believe in it. Its only fault is that it does not go far enough."

But the true answer is: it is *not* a step toward collectivism. Even though "Single Taxers" and Socialists both

advocate the abolition of private property in land, yet in spite of this they stand on principles essentially antagonistic. For while the Socialist would destroy private property in land as but one step in a program of *destroying* practically all private property rights, the "Single Taxer" would destroy private property in land as the only possible means of *insuring* private property rights.

The two theories are like two roads running at right angles. Where they cross they have a point in common, but they do not start from the same point, do not run in the same direction, nor are their destinations the same.

The goal of the "Single Taxer" is equality of opportunity for all with the greatest possible liberty for the individual. The goal of the Socialist is equality of wealth for all with control of the individual, his activities, and his product, by the State.

There are only two governmental philosophies. According to one, the liberty of, and justice to, the individual are the objects which are of supreme importance; the welfare of society being only secondary and incidental. Those who subscribe to this philosophy are the individualists. According to the other philosophy, the welfare of the State is the object of supreme importance—the individual is considered only from the viewpoint of his value to the State. Those who subscribe to this philosophy are the collectivists, one group of whom has appropriately named themselves "Societyists," or "Socialists." All governments, and all acts of all governments are motivated, consciously or unconsciously, by one or the other of these philosophies.

Communists, Socialists, Nazis, Fascists, New Dealers, "Single Taxers," Anarchists, and many others agree that there is something radically wrong with the

present distribution of wealth; they agree also that in some way involuntary poverty should be eliminated; but here all roads part. Not agreeing as to the cause of the condition, the methods which they would employ to secure its removal differ widely.

The Anarchist is the extreme individualist. Like the others he wishes to have economic justice among men, but believes this can best be accomplished by having no government at all. He contends that no man is fit to govern another. The "Single Taxer" points out that, because land differs in productivity, in order to have economic justice there must be rules regulating land tenure. Otherwise, we cannot insure equality of economic opportunity, and without such equality there can be no economic justice. But rules of any kind regulating the acts of people living together in society, and the enforcement of these rules, constitute government. Under true Anarchism, a condition of no government at all, there could be no such regulations to insure economic justice among the citizens.

However, governments today are not tending toward individualism, but in the diametrically opposite direction—toward various forms of collectivism. Communism, socialism, nazism, fascism, are all founded on the same principle, i.e., that it is proper for the State to regulate the life of the individual and to control his property for the benefit of the State. A study of the recent legislation in the United States will show that much of it, too, is based on the same principle.

All attempts to "divide the wealth," imply that what a man produces does not belong exclusively to him. Many people truly believe that "soaking the rich" relieves the poor and therefore it is justified. But revenues

raised with the idea of "soaking the rich" not only cannot help the poor man, they actually make his condition worse. For such taxes, by relieving land from taxation, result in raising the price of land above what it otherwise would be and thus indirectly, but inevitably, cause lower wages, increased unemployment, and higher prices for the goods the poor must buy.

Movements to "divide the wealth," to "soak the rich," to "tax in accordance with ability to pay," all State subsidies, all government bonuses and relief—all are communistic in essence. Their aim is to take from those who have and give to those who have not, without regard for true equity or justice; their result is increased unemployment and poverty, and decreased liberty for the individual.

What are socialism and communism and what is the difference between the two? There are many definitions of socialism, almost as many as there are books written about it. One of the simplest and yet most complete and widely accepted is that given in the *Encyclopaedia Britannica*:

"Socialism is a policy which aims at securing, by means of the compulsory powers of the State, a better distribution, and in due subordination thereto, a better production of wealth. To this end it would have the State own the land and large workshops, and the materials and means of production on a large scale, with strict public regulation of all trade and industry."

There is no reference here to a just distribution of wealth, nor is there any reference to the importance of safeguarding the liberty of the individual. In this the statement is consistent. For the regulation of trade and industry by the State requires also the regulation of the



lives of the men and women working in the industries. Under such a system, an immense bureaucracy is necessary to pry into the private affairs of everyone in an effort to detect any violation of these regulations. Any pretense of safeguarding the liberty of the individual would be a farce.

It will be noted that this program provides for the ownership by the State of the land, the large workshops and industries and the principal means and materials for producing wealth.

In previous lessons we have seen that because no man can make land, because all must use land in order to live and because no one rightfully can have a better opportunity to earn his living than has his fellows, justice demands that our laws and institutions recognize and treat the land as belonging equally to all. However *titles* may be held, land *ownership* must rest in the State. But how is it possible for the State to attain ownership of the large industries and workshops, and to the materials and means of production, which the Socialist would have it own? These things have been produced by the labor of individuals, working singly or in groups (never by society, as such), and they belong to the individuals who made them. There is no possible way by which the State can acquire a just title to any product of labor (except, of course, that sufficient of that part of the citizens' property that constitutes the site value fund must be taken for the necessary costs of government). Even if the State were to purchase these workshops, etc., they could be purchased only with wealth which had been taken from individuals—which would be just as truly theft as though it were not legalized.

Further, since there is no dividing line between the

“principal” materials and means of production, and those not “principal”; no dividing line between the “large” workshops and industries, and those not “large”; and since all movements tend to gather momentum as they progress, the constant tendency would be for the State to continue its encroachments until eventually it would own or control, not only the large workshops and industries, but also the medium sized ones, and then the small ones. Even if this were not included in the original plan it would become necessary, for no government could run a large industry successfully if it could not control the competition offered by the small units within that industry. This is so because small units in private hands would give better service. The control or management of any enterprise by the State tends to become inefficient because the State has no self-interest, and without self-interest the chief incentive to efficiency is lacking. Further, since the State can always make up its deficits by increasing taxation, there is necessity neither for efficient management, nor for keeping prices at the level which free competition would insure.

Trade and industry cannot be controlled effectively unless, at the same time, there is control of the wealth produced in the industries; therefore it would be but a step, a very short step, to the control by the State of all the wealth produced—a government enforced community of goods—the ideal of communism.

Communism is only an extension, an inevitable extension, of socialism—they differ in degree, not in kind. Thus we see that the Communist is more logical than the Socialist. He follows his philosophy through to its logical conclusion.

But, though both Socialists and Communists are

vehement in their denunciation of exploitation of the workers, they, themselves, propose control by the State of the activities and the property of the workers. This is inherently the worst form of exploitation.\* It is a form of slavery even worse than that brought about by exploitation of one individual by another, for there is no method by which such a system can be changed save by revolution.

The chief cause for the spread of communistic and other collectivist proposals is a condition of economic stress without an adequate knowledge of economic principles. No people would willingly choose exploitation by, and slavery to, the State if they knew how to find relief without these.

We have seen that the chief cause of this economic stress is the privilege granted to some of privately appropriating rent; but they who suffer do not know this. They do not know why they are in their present plight. They vaguely feel that in some way, by some one, they are being injured. In democratic countries, at least, they expected liberty and security, but find they have only the shadow of these, not the substance. They know that enough easily could be produced for all, yet they suffer want in the midst of plenty. And because they know nothing of economic principles, nothing of the relation between cause and effect, nothing of the vital difference between capitalists as a class and land-owners as a class, they fall an easy prey to the theory that their condition is due to the profits made by their employers and other capitalists, and that they would have security at least, if goods were produced "for use and not for profit."

\*To exploit: to take for one's own use and advantage without regard for right or justice.

This is a specious program, for soon or later, if adopted and continued, it can but lead to disaster—to starvation and not to security. It degrades men by bestowing on them what the government has gotten by the injustice of theft (however obscure this fact may be), leading them to believe that this is a proper means of securing what they would like to have. Such a program would make individual liberty an impossibility.

As for “profits,” in order to know whether, in any given case, they are just or unjust, it is necessary to understand clearly what profits are. We have seen (page 22) that profits consist of rent, wages, or interest, or of some combination of any two or all three of these. Often they are wholly wages, and in these cases, to abolish profits means to prevent a man from getting what he has earned and what belongs to him.

The only method by which profits can be abolished is by preventing people from buying and selling as they may like to buy and sell. This is what collectivists propose: that free markets be abolished and a “planned economy” substituted in which the State shall decide what and how much of each item shall be produced; the product to be distributed without regard to how much the recipient may have produced. As one writer expresses it: “The object shall be to distribute goods, not to reward people in accordance with what they produce.”

In the effort to apply such a plan, consumption also would need to be controlled. If one gets a brown coat when one wants a grey one, or a pair of white shoes instead of black, these things must be used anyway—the plan demands it. But humans do not adapt themselves readily to being blueprinted. That which every-

one strives for, from the moment he is born until he dies, is the satisfaction of his desires. In a planned economy, production and distribution are based on what the planners decide the people should have, not on what people want. Even if an attempt were made to satisfy people's desires, the plan could be based only on past desires. Human desires, however, are not static: as soon as one is satisfied another develops; and it must be so, if there is to be growth and progression. To pattern our future lives upon the past is retrogression. To be forced to accept and use things we do not want is, to that extent, slavery.

No "planned economy," no program of "production for use and not for profit" can satisfy the desires of the people; therefore to make such a plan work two policies must be adopted:

1—There must be intensive propaganda to make the people want, or at least willing to accept, what the planners have decreed; because if the great majority rebelled, even force could not keep the plan in operation for very long. To label them "five year plans," etc., is only a bit of propaganda to make them more palatable. People may agree to accept misery for five years or some other given period, with the hope of a permanent betterment in their condition at the end of that period, when they would not accept it with the expectation that it would continue indefinitely;

2—The other thing necessary to a planned economy is "purging." Force must be used against those who will not comply with, or who criticize the plan, because such opposition would quickly crystallize the dissatisfaction felt by others. This force may take the form of driving opponents out of the country; of ruining their

businesses so that they starve; of crowding them into concentration camps to break their spirit; or even of murder (under the euphonious label of "liquidation").

There cannot be much of a planned economy under a democratic form of government; for people, knowingly, will not vote to use force against themselves. Democracy means opportunity to express one's convictions at the ballot box, and the control, by the people, of their government. Therefore, before a planned economy can be put into full operation, democracy must be destroyed and the power of the people to govern themselves abolished. A dictator must be substituted for a democratic form of government, and an army must be employed to enforce the State's decrees; for production must go on, even if under protest, else the people will perish.

But if men cannot produce what they want and keep what they produce, there is no incentive to produce. Production declines in spite of the application of force. Then the State must choose among (1) decreasing the ration of goods to its people, thus further increasing dissatisfaction; (2) continuing the existing ration at the expense of the capital structure, which of course can be done for but a short time; (3) getting increased wealth for distribution from some source other than production. If there be any class within the country which still has any wealth, that wealth can be appropriated; but when this mine is exhausted, to prevent a revolution, the nation then must get wealth from sources outside its borders, if possible. Thus a planned economy leads to war; in a country rich in natural resources not so quickly as in a country with fewer resources, but war is certain to come.

To put into operation a "planned economy" (the pro-

gram of collectivism) requires the use of force; first, within a country itself, and later outside its borders. All such plans require and are based on the subjugation of the people to the State.

Is there anything in this picture even remotely resembling what is proposed by the "Single Taxer"? No. To the contrary, what he proposes might properly be called a "plan" for the liberation of the people.

It is common to condemn a dictator and to blame him for what takes place in his country. While it is true that it requires a dictator to enforce a planned economy with all of its injustices, nevertheless, it is not the dictator, himself, who is responsible. However virtuous might be the dictator in power at any given time, only disaster can come from a system under which it is attempted to force men's lives into a mold in conformity with the will of planners. Give a man freedom, and he can soar to the heights, enslave him and he becomes a clod. Collectivist forms of government are disastrous to the progress of civilization. Bad as are their effects on man's material condition, these are but trivial in comparison with what they do to his spirit.

Between the Anarchist at the one extreme, who would leave us free of all regulation by the State, and the Communist at the other extreme, who would have the State control our activities and the wealth we produce, stands everyone who is not an Anarchist or a Communist, including the "Single Taxer," who is just as staunch a believer in safeguarding the liberty of the individual as any Anarchist possibly could be.

Of course, as to liberty in its non-political sense, full liberty cannot be. For instance, two people cannot stand on the same spot at the same time; or, if a man is to live

peaceably with others, he must stop the swing of his arm before it strikes another's face. But if men cannot be wholly free they must learn that each need give up only so much of his liberty as every other individual gives up. But, turning again to political or social freedom, equal freedom for all is impossible so long as special privileges of any kind are granted which give to some the power to do anything at the expense of others, or which give to some powers of any kind which are denied to others. The greatest of all special privileges is that of owning land and appropriating its rent. When we shall have abolished special privileges, we shall have established equal freedom and equal opportunity for all.

Instead of having no regulation by the State as suggested by the Anarchists, and instead of having the State smother the individual with regulations as proposed by the Communists, the "Single Taxer," in order to insure equal opportunity for all and to establish justice among men, would have the State limit itself to the performance of two functions and two only, leaving all others to be performed by individuals. These two activities, the only proper functions of the State, are:

1—While itself refraining from infringing on the person or property of any of its citizens, it also should prevent such infringement by any citizen upon any other; and

2—It should so administer land tenures as to keep economic opportunities equally open to all—which can be accomplished only by collecting all site values and disbursing them in the interest of all.

Fundamentally No. 2 is included in No. 1, but No. 1, stated alone, might seem to imply that the only proper



function of government is the exercise of its police power, while, really, No. 2 is of greater importance; for, if land tenures were properly administered, there probably would be little need for the exercise of the police power.

Government cannot do less than these two things without permitting some individuals to infringe upon the person, property or opportunity of others; on the other hand, if the State does more than these two things, then the government itself is guilty of infringement. Jefferson recognized this when, in his first inaugural address, he said:

"Restrain men from injuring each other, but leave them otherwise free to follow their own pursuits of industry and employment."

If the government properly performed these two simple functions, a condition would not arise in society which seemed to call for the activity of government in many fields which are really none of its concern.

Some day mankind will realize that political liberty, without economic liberty, is of little benefit. Men will accept slavery, if they must, rather than go hungry; but the greatest human struggle throughout the ages has been the struggle for liberty. Men will accept less than freedom if they do not see how this can be avoided, but mankind will never be *content* with anything less than the greatest possible degree of individual freedom; therefore we can be certain that the struggle will go on until this is attained.

Liberty cannot be realized until that which prevents its realization is understood and removed. Any government, then, if it would endure, must put an end to

private property in land. At the same time it must scrupulously protect the producer in his ownership of what he produces. Since governments do wish to endure, we can be sure that soon or later private property in land will be abolished. The change may be delayed, or some upheaval in society may bring it suddenly; but come it must, and he who has the opportunity to hasten it is indeed fortunate.

As Henry George has said, "It may be a long, long struggle, but to see the truth and to do what one can to spread it, brings its own rich and independent reward."

#### QUESTIONS FOR DISCUSSION

- 1—What would be the effect on production, consumption and employment, of a government regulation fixing the price of an article lower than a free market would fix it?
- 2—What would be the effect on production, consumption and employment, of a government regulation fixing the price of an article higher than a free market would fix it?
- 3—Are "free markets" important to society? Why do they develop?
- 4—Is a "free market" (one which develops naturally) more, or less, efficient than a "planned market" would be? Why?
- 5—Would making land common property violate the sanctity of property rights? If so, why? If not, why not?
- 6—Does one's title to wealth rest on a stronger foundation than his title to land? Why? Does the State's title to land rest on a sound foundation? Can the State's title to wealth have a sound foundation? Why?

- 7—What is a dictatorship? What is a democracy? Which requires violence to change? Why? Which can be changed without violence? Why?
- 8—Can a collectivist form of government ever lead to individual freedom? If so, how and why? If not, why not?
- 9—What is the difference between an equal distribution of wealth and an equitable distribution of wealth? Is either just? If so, which, and why?
- 10—What is the chief cause of an inequitable distribution of wealth? How does this cause operate?
- 11—Why can the functions of government be no more than two without interfering with individual liberty?
- 12—In a democracy can the people vote themselves into a condition of economic slavery? Is there any reason to accept as true the charge that this has been done, or is being done in America?

## ADDENDA

### LAND OWNERSHIP IN THE UNITED STATES

A century or two ago we disposed of our lands as though they were a curse—something to be gotten rid of as quickly as possible. Millions of acres were given away, millions more were sold at the rate of 16¢ an acre—\$10.00 for a 640 acre tract. Later the price was raised to \$1.25 an acre, and vast areas were disposed of at this figure. In addition to lands legally disposed of at these figures, millions of other acres were lost through forgery and fraudulent claims.

Today there is no free land in the United States where a man may go to make a home, though our population averages but 42 to the square mile. President F. D. Roosevelt by two proclamations, one in November, 1934, and one in January, 1935, withdrew from homestead entry the last vestige of our public domain.

According to a report from the Department of Commerce and Labor, the United States made land grants to the railroads amounting to 190,000,000 acres, about one-tenth of the area of the United States. These were the Federal grants; in addition several of the states made grants to the railroads, which, combined, totaled an equal amount.

The Northern Pacific Railroad, at the time the report was made, had 47,000,000 acres on its main lines and 43,000,000 acres more on its branch lines, nearly 4,000,000 of it in timber lands.

The holdings of the Southern Pacific system included colossal timber resources which had come into its possession as land grants from the public domain. In almost the entire strip of territory 60 miles wide by 683 miles long, from Portland to Sacramento, this railroad was the dominating owner for both the timber and the land—the largest single timber holding in the United States. In addition to this the Southern Pacific owned also 650,000 acres in Southern California, much of it valuable oil property.

Other railroads likewise held enormous tracts, the combined holdings of three of them being sufficient to give fifteen acres to each adult male in the nine states in which these lands were situated.

Since these grants were made the railroads have sold considerable portions of their holdings, but it is estimated that they still hold over 200,000,000 acres, one-tenth of the country, the greater part of which is unused. When making its grants the Federal Government imposed the condition that the roads must be built within a specified time, otherwise the grants would lapse and the land again become public property. Though many railroads failed to comply with this condition, the lands in question have never been reclaimed and a government report, 1930, states: "The railroads are the largest private owners of land held for sale or for lease in the United States."

A report issued by the Bureau of Corporations stated that 1,694 timberland owners held in fee one-twentieth

of the land area of the United States, 105,600,000 acres; sixteen individuals of the 1,694 owned 47,800,000 acres. In the southwest part of the State of Washington, 40% of the timber lands were held by two men.

The greatest land holdings, in area, are found in California, Arizona, New Mexico, Colorado and other western states (where, in many instances, vast estates of from 500,000 to 1,000,000 acres were carved out of the public domain by fraudulent claims). But not all of the great land holdings were reported as being in these states. Fifty-two men held one-third of the State of Florida, chiefly in timber lands; in the Upper Peninsula of Michigan, 45% of the land was held by thirty-two persons. In Mississippi, a British corporation held 2,000,000 acres; in Texas the King ranch covers over 1,000,000 acres; in Kansas a British land company owned 300,000 acres; in western New York "the Baron of Geneseo" owned 29 square miles.

The above instances are not meant to present the whole picture. They are only a few, a *very few*, of the sign posts pointing the way we are traveling; sign posts which show how far our country already has gone on a course which results in depriving men of opportunities to work and to keep for themselves what they produce. The government report of June 30, 1930, states: "With practically no available agricultural land in Federal ownership and relatively small acreage of such lands in State ownership, substantially all the remaining 60,000,000 acres of land physically capable of producing crops, but not now so employed, are in private ownership."

As land gravitates into fewer and fewer hands, tenantry must increase. Census reports show that in 1880, 25% of our farms were operated by tenants; by 1920

the percentage had increased to 38.1%. Secretary Wallace, in 1930, before a Committee of the Senate stated: "Today we find that half of our farm lands are operated by tenants, and nearly that large a percentage of our farmers rent all the land they farm."

Are the conditions different in the cities?

From reliable sources we learn that: in New York City thirteen families own nearly one-fifteenth of the assessed value of the land in Manhattan, though there are at least 560,000 families living there, 43,000 times 13. Two thousand people own the major part of the land values of Greater New York, and a greater part of its area. In New York City live about 1,723,000 families, of whom about 1,355,000 are tenants.

Over half of the business center of Chicago is owned by 85 people. The land of Cleveland is held by 86,000 people, less than 10%. One-half of the land value of that city is owned by about 500 people.

Census figures show that the number of tenant families living in any given city is practically always well over 50% of the whole; frequently the percentage is over 75%. These figures are for residence property; figures for the number of tenants using business property probably would differ.

No. 20 Wall Street, New York City, brought the highest price ever paid in this country for a plot of this size. It sold for \$1,220,000, or over \$655 per square foot (this is at the rate of \$28,531,800 an acre). Sixty years before, this property sold at the rate of \$30 per square foot. The property on the southeast corner of Broadway and Wall Street held the record before that. It sold in 1905 for \$558.65 per square foot, or at the rate of \$24,334,790 an acre.

Oil royalties (a form of land rent) in Texas in 1937 amounted to \$105,000,000; the state budget for 1941 was \$32,000,000. (This helps to answer the question sometimes asked as to whether ground rents would be sufficient for the costs of government.)



## INDEX

- "Ability to Pay," tax theory, 166  
Abolition of Competition, *see* Competition  
Abolition of Private Property in Land: by collection of site values, 162-3; by gradual program, 163; compensation to owners, 158; hardship caused by, 147; justice of, 154-7; no injustice, 151-7; practicality of, 161-2; with stroke of pen, 162; *see* Private Property  
Aborigine, wages not drawn from capital, 18  
Age, economic history, *see* Man  
Anarchism, 205  
Andersonville Prison, 134  
Application of Remedy, *see* Remedy  
Apprentices, 127  
Artificially high prices: effect on land use and land values, 99  
  
Banks: causes of failures, etc., 106; frozen assets explained, 106; loans, basis of, effect of, 103; loan policy during depression, *see* Depressions  
Benefits: "Conferred," 166; received by land user, 169  
Blame for present system, 158-9  
Bonds not wealth, 12  
Bonus, 21  
Bureau of Corporations; report of, *see* Corporations  
Business: failures, percentage of, 128  
Business man: aim of, 1; effect of proposed change on, 184-5; *see* Man  
Buying power: cause of, 108; lack of, 108  
  
California Taxpayers' Association, 167  
Capital: defined, 23, 41; distinguished from wealth, 16; effect of withholding from use, 50; function of, 17; must be used by labor, 17; never employs labor, 48; not a monopoly, 41; secondary factor

- in production of wealth, 17; used by labor, 17; by primitive man, 15; what is not included in definition, 41; versus capitalization, 41
- Capital and Labor: strife between, 130; their true relation, 129-30
- Capitalist, 128: effect of proposed change on, 191-2; power of, 85; unjustly blamed, 84
- Cause and effect, 4
- Cause of Lack of Buying Power, *see* Buying Power
- Cause of Unemployment, *see* Unemployment
- Causes of War, *see* War
- Change, proposed, effects of, *see* Proposed Change
- Charity, effect of proposed change on, 198
- Charts: Chicago land value history, 95; economic history of the individual, 5; population, 59; present versus proposed system, 188; productivity of land, 31, 190, 193-5; rent, 32; wages, 34, 37-8, 65, 67-8, 74, 77-8, 85, 99-101, 148-9, 173, 190, 193-5; selling price of land, 164; taxation, 177-8
- Chicago: land holdings, 221; values (100 year history), 95
- Chrysler Building, 146
- Cities: effect of proposed change on, 197; growth explained, 69-70
- Civilization: basis of, 17, 83-4; probable beginning, 17; present civilization could not exist without use of capital, 17
- Cleveland building trades, 126
- Collection of Ground Rent, *see* Ground Rent
- Collectivism, 203-5, 213
- Columbia University as landlord, 146
- Commerce, report of Department of, 218
- Commission, 21
- Communism, 138, 206, 208-9
- Community, tendency of land values to increase in, 77; fund, 165
- Compensation to land-owners, 158
- Competition, abolition of, 130; "eliminating," 130-1; "evils of," 130
- Concentration camps, 212
- Condition of Labor, *see* Labor
- Constitution of New York State, *see* New York
- Consumption of wealth, defined, 25
- Co-operation, 132
- Cooper Union, 146
- Copper prices, history of in U.S., 102
- Corporations, report of Bureau of, 219
- Costs of Government, 165-6
- Courts, effect of proposed change on, 198
- Criminals, effect of proposed change on, 198-9
- Cuba, trade with U.S., 120
- Nature of depressions, *see* Depressions

- Definitions, 23: of; capital, 6, 23, 41, consumption of wealth, 25, distribution, 24, economic use versus commercial use, 22, economics, "a dismal science," 6, extractive industries, 103, interest, 21-3, labor, 23, land, 8, 23, "land-poor," 107, laws of distribution, 27, man, 8-9, "overproduction," 108, parasites, 26, social parasites, 25, personal services, 24, political economy, 4, 23, production, 24, profits, 22-3, rent, 21, 23, "under-consumption," 108, wages, 23, wealth, 11-12, 23; confusing in most books, how treated in most books on political economy, 6; importance of, 6-7; lack of accuracy of, purpose of, 6; seven basic terms, 22-3
- Deflation of land values, result of, 106
- Democracy, destruction of, 212
- Department of Commerce, report of, *see* Commerce
- Depressions: affecting Chicago land values, 95; business man's view of, 90; causes traced, 91; consumers buy less during, 90; cure of, 108-10; described, 88, 93; development of, 92; loan policy of banks during, 105; main cause, 108; symptom of sick society, 90
- Desires, man's: for material things and steps necessary to satisfy, 25; beyond bare necessities, importance, etc., 26; efforts of labor to satisfy, 25
- Destruction of private property in land, question of injustice, 143
- Dictator, 212
- Direct Taxes, *see* Taxes
- Distress, economic, false theories regarding, 46-62
- Distribution: complements production, 27; parts in, 21-2; *see* Production; defined, 24
- Distribution of wealth, 25-45, 204-5: attempt to fix by man-made laws, 27-8; defined, 27; economic law governing, 25-45; effect of: improved methods and machines on, 69-75, increased populations, 64-9, speculation in land, 76-86; explained, 21; fixed by natural laws, 27; table of life insurance companies regarding, 4
- "Divide the Wealth," 205-6
- Doctors, render personal services, 25
- Economic: axiom, 23; conditions compared to epidemic, 2; distress, cause of, 89-111, discussed, 2, suggested remedies, 113-36, true remedy for, 138-59; freedom, 181; history of man, *see* Man; laws, lack of knowledge of, 2; liberty, 215; principles, labor unions disregard of, 129; problems, 4; system, labor and capital versus land tenure, 87; tendency, 3; theories regarding distress, 46-62
- Economics (Political Economy): defined, 4, 23; three basic factors in, 14
- Education: affecting wages, beneficial to individual, 116; increased

- Effect of withholding capital from use, *see* Capital  
 Effect of withholding land from use, *see* Land  
 Effect on production and distribution: of improved methods and machines, of increased populations, of speculation in land, *see* Production  
 Effects of the proposed change, 183; on: business men, capitalists, causes of war, cities, criminals, farmers, government, government officials, home-owners, industriousness, laborers, land-holders, morality, need for charity, unused land, *see* Proposed Change  
 Employment: effect of tariff on, 123; opportunities of, 190; "spread work" discussed, 47; unlimited with access to land, 49  
 Enemy of labor, 129  
 Energy, of man, applied to obtaining material things, 9  
 England, abolition of tariff in, 122  
 Equal freedom, *see* Freedom  
 Equal opportunity to use land, *see* Opportunity  
 Equality of opportunity, *see* Opportunity  
 Estates, great, 142  
 "Evils of Competition," *see* Competition  
 Example of: ineffectiveness of man-made laws, 28-30; labor using capital, 17; use of central warehouse, 69; wages not drawn from capital, 19  
 Exchange: basis of civilization, 84; made easier by use of money, 13; role in: civilization, 17, production, 16  
 Exchange and specializing by labor, result of, 65-7  
 Exporting, popular concept of, 118  
 "Extractive industries," defined, 103
- Factors in production, *see* Production  
 Farm, mortgages, foreclosures on, explained and analyzed, 104  
 Farmers: effect of proposed change on, 186-7; relation to other producers, 103  
 Farm land prices in boom periods, 103  
 Fascism, 138  
 Fear, of business man, employee, employer, 3  
 Federal Home Loan Bank Board, report of, 126  
 Federation of Single Tax Leagues of Australia, 161  
 "Fiscal Reform," 183-4  
 "Five Year Plans," 211  
 "For use and not for profit," 209  
 Force, use of, 213  
 Forefathers, remedies: compared, 2; used by, 3  
 Foreign trade, *see* Trade  
 Fortunes, great, 140

- France, land ownership in, 59, 142  
 Free: bargaining, 131-2; competition, 131-5; market, 133; trade, 122, in U.S., 123  
 Freedom, 132, 215; equal, 214  
 "Freeman, The" 149  
 French Revolution, land ownership at, 142  
 "Frozen Assets," of banks, explained, *see* Banks  
 Functions of government, *see* Government
- George, Henry, 216  
 Goal, of business man, of labor, 1  
 Government: effect of, price pegging, 98, proposed change on, on officials of, 196-7; expenses, fund for, 164-79; financed by collection of site values, 180; proper functions of, sphere, 214-15; philosophies of, 204; regulation, 132  
 Ground Rent: application to cities, coal and oil fields, farm lands, forest lands, mineral lands, railroads, town sites, 179; collection of, 171-5; method of collection, 177-8
- Habits, improved, of industry, thrift, 113  
 "Have" and "Have Not" Countries, discussed, 59  
 Henry VIII, 154  
 Home-owners, effect of proposed change on, 184-5  
 Homesteads, 218  
 Human Nature, 134
- Importation, popular belief regarding, 118  
 Improved machines, effect of, *see* Machinery  
 Improvements in production, benefit land-owner, *see* Production  
 Incentive, to production, war, 212  
 Increased population raises not lowers standard of living by natural law, 64-5  
 Indirect taxes, *see* Taxes  
 Industrial: progress, and Chicago land value history, 95; "Revolution," effectiveness of labor before and after, 70  
 Industriousness, effect of proposed change on, 201  
 Industry: as affecting wages, beneficial to individuals, 116  
 Injustice: taxing according to ability to pay, 170-1  
 Interest: cause of, 42; commercial use of word, 21-2; defined, 21-3; how labor will get, 188-92; justice of, 42; law of, 40-4; "money hire" not interest, 22  
 Interstate tariffs, *see* Tariff
- Justice of remedy, 143-7, 167-8

- Labor: aim of, 1; benefit of men working together in society, 7-8; condition of, 130; co-operating in production, effect of, 65-7; defined, 23, and discussed, 9, 11; demand increased by increased population, 70; effectiveness, 71; effect of proposed change on, 192-200; efforts of to satisfy desires, 25; examples, 9-10, 48-52, 66-8; exploited by land ownership, 85; must yield first in deflation of prices, 107; not dependent on capital, 49-50; problem of, 130; produces own wages, 48-52; relation to land, 129; specializing and exchanging results in increased production, 65-7; uses capital, 17
- Labor-saving machines, in relation to unemployment, 74-5
- Labor Unions, 125
- Land: defined, 8, 23; effect of proposed change on, 197; effect of tariff on values of, 122, withholding from use, 50; examples, explained, 31; exclusive possession of, 146; farm prices in boom periods, 103; fertility of in relation to value, 70; grants, 218; held out of use: reason, 82, purpose, 86, effect on rent and wages, 78-9; holders, effect of proposed change on, 184, 189, 199-200; holding in relation to jobs, 83; nature of, discussed, explained, 9; owners: described, 129, number of in relation to population, 141, responsibility of, 157; ownership: in U.S.A., 218-22, question of necessity, 143-4, really an opportunity to work, 83; poorer grades put to use, reason, 77; private ownership versus private possession of, 146; problem, 130; productivity varies, 31; selling price of, 180, as affected by taxation, 164; speculation: feverish as production increases, 94, in relation to jobs, 83, preceded by period of prosperity, 93, in relation to prices, 83; storehouse of material things, 9; tenure system of to be condemned, 86; unused, effect of proposed change on, 197; use of poor, result of, 140; value maps, 177
- Landless, men, people, 131, 141
- Landlords, their interests opposed to those of nation, 89
- Land-owner, benefited by: improved conditions and facilities, 85, improvements in production, 84; compared to laborer and capitalist in relation to civilization, 82; power of, 85; relation to society, 82; should not be condemned, 86
- "Land-Poor," defined, 107
- Land values: a community fund, 165; in Chicago history, 100-year period, 95; in New York, 150; last to be deflated, 107; tendency to increase in growing community, 77
- Law of: interest, 40-4; rent, examples, 31-9; wages, explained, examples, 30-9; distribution, defined, 27, must correlate, 30, questions for discussion, 44-5, recapitulated, 44; rent, wages and interest, 24-45
- Lawyers, services classified, 25

- Legislators, methods employed by, 3  
 Liberty, 139, political, 215  
 Life Insurance Companies, table of wealth distribution, 4  
 Limitation, of hours, 127, work, 127  
 Los Angeles: value of unused land in, 197; building trades in, 126  
 Louisiana, sugar lands in, 121  
 Low wages, 125, cause of, 163  
 Machinery: effect of use of, 70-5, 140; improved, effect explained, 72-4  
 Malthusian Theory, explained and disproved, 53, 57, 64-6  
 Man: advantages of association in society, 7-8; age 20, defined, 8-9; economic desires, 8; economic history at age 60, 4; "workingman," 140  
 "Management" is labor, 23  
 Manufacturer, flour mill example, wages not drawn from capital, 19  
 Material things, how obtained from land, 9  
 Materials, source of, needed to satisfy man's desires, 8  
 Mental and physical energy, discussed, 9  
 Methods of applying proposed remedy, 161  
 Mexico, population and wealth compared with Washington State, 56  
 Money: nature of, 13; not wealth, 12-13; used to pay wages as convenience, example, 20  
 Money hire, distinguished from "interest," 22  
 Morals, effect of proposed change on, 201  
 Mortgages, not wealth, 12; on farms, basis, 103; effect on of drop in commodity prices, 103-7  
 Multiplication table, fundamental, compared, 4  
 Musicians, services classified, 25  
 Natural laws, result of interference with, 2, 113  
 Nature, 8  
 Nazism, 138  
 "Need to Buy," 166  
 New Deal, 138  
 New Jersey, wealth of, 139  
 New York Central Railroad, 146  
 New York City, land holdings in, 221  
 New York State, constitution of, 144-5  
 Northern Pacific Railroad, *see* Railroad  
 Number of taxes on commodities, *see* Taxes  
 Oil royalties, *see* Texas  
 Opportunity: equal economic, 181, 214-15; equality of, 153, 174, 180, 201; of employment, 190; to use land, 155; unlimited, 180

- "Over-capitalization," 41  
 "Over-crowding," 59, 140  
 "Over-population," 57-9  
 "Over-production," described, 108
- Panic, *Magazine of Wall Street* quoted, 93  
 Parasites, social, 25-7  
 Pegging of prices; effect of, 98-9  
 Persia, land-ownership in, 142  
 Personal property values, comparison of in two New Jersey counties, 186  
 Personal service: benefits to those who supply, 190-2, 195; defined and classified, 24-5; importance of, 25-6; not labor, 10, 25-6  
 Philosophies of government, *see* Government  
 "Planned Economy," 211-12  
 Political Economy: based on existence of society, 7; defined, 4, 123; definitions foundation of study, 7; relation to consumption of wealth, 25; solution for economic ills, 4  
 Political liberty, *see* Liberty  
 Population: densities, 58-9; increase in, standard of living, 64-5; in U.S., 59, 150; and land-ownership, 142  
 Poverty, 47, 62, 140; persists with plenty, false explanations and theories, 46, 62  
 Price: of land, paid for opportunity to work, 140; rise in preceding panics, 93; speculative, based on hope of future, 94; of wheat, pegging in U.S. after World War I, 99  
 Price fixing, interference with natural law, 2  
 Prices, artificially high, effect of on land use and land values, 99  
 Private property in land: advantages of abolition of, 148-9, 151; constitutionality of in New York State, 144; destruction of, question of injustice of, 143; not necessary, 147  
 Privilege: cause of social ills, 209; legalized, 132, 135; special, 135, 214  
 Problem: economic, the, 17-18; fundamental, 3; with relation to Political Economy, 1-8  
 Producers, oppressed by private property in land, 147-8  
 Product, how distributed, 23  
 Production: affected by specialization and trade, 117; complemented by distribution, 23; effect of: improved methods and machines, 69, 75, increased populations, 64-9, speculation in land, 76-86; defined, 16-24; elements in, summary of, 20-1; factors in, 23, 91; improvements in benefit land-owner, 84; increase in is possible, 190; of wealth, possible without capital, 30; primary factors of, 17; questions regarding, 17, 23-4; without capital, 17



- Productivity of land: examples, explained, varies, 31  
 "Profits," defined and explained, 22-3, 210  
 Profit-sharing, 132  
 "Progress and Poverty," (Henry George) quoted regarding conditions of labor, 64  
 Proposed change, effect of on: business man, 184-5, capitalists, 191-2, causes of war, 199, cities, 197, criminals and courts, 198-9, farmers, 186-7, government, 196-8, 199, government officials, 196-7, home-owners, 184-5, industriousness, 201, laborers, 192-5, 200, land-holders, 184, 189, 199-200, morality, 201, need for charity, 100, unused land, 197  
 Protective tariffs, *see* Tariff  
 Pueblo Indians, 144  
 Purchasing power, effect of improved machines on, 73  
 Purging, 211
- Radio City, 146  
 Railroad, land-holdings, 218: Northern Pacific, Southern Pacific, 219  
 Regulation by State, *see* State  
 Remedies: employed now compared with those of forefathers, 2; fundamental principles overlooked, 3; suggested, 113  
 Remedy, application of, 162; the true, 138, 203  
 Rent: cause of, 21; collection of ground, 179; defined, 21, 23; does not include site value of land used in consumption, 21, 165; effect on of idle land-holding, 78-9, of speculation in land, 77; law of, defined and explained, 30-1; private appropriation of, 128  
 Rental value of land, a payment for advantages received, 168  
 "Revolution," industrial; effectiveness of labor before and after, 70  
 Rhode Island, *see* Taxation  
 "Rights," of land-owners, 158-9  
 Rockefeller, John D., 146  
 Rome: fall of, 141; land ownership in, 142; *see* Taxation  
 Roosevelt, F. D., 218  
 Russia, land-ownership in, 142
- Sailors Snug Harbor, 147  
 Savage tribe, 139  
 "Selfish Greed," 133  
 Selling price of land, *see* Land  
 Share cropper, the business man a, 187  
 Single Tax, 203-4; true concept of, 164  
 Skilled trades, affected by labor unions, 125  
 Slavery, state of by deprivation of land use, 156-7  
 Socialism, 138, 206-8

- Socialist, 203-4  
Society: compared to sick individual, endangered; 89; problems confronting, 2  
Societyists, 204  
Southern Pacific Railroad land-holdings, *see* Railroad  
Special privileges, 135, 214  
Speculation: in Chicago land values, 100 years history, 95, land, diagram showing effect of, 78; effect on: distribution, 76, 87, wages, rents and production, 79-80, in Canada, 80; purpose of, 86; in New York, statistics analyzed, 81  
"Spread the work," theory discussed, 47  
Standard of living: affected by unions, 126; raised by use of capital, 15; reduced only by necessity, 90  
State, regulation by, 213  
Stocks, not wealth, 12  
Strikes, 127; effect on wealth and capital, 17  
Subsidies, 206  
Sugar lands, *see* Louisiana  
Suggested remedies, *see* Remedies  
Systems, present and proposed; compared, 188
- Table, regarding wealth distribution by Life Insurance Companies, 4  
Tariff, definition of, 116; effect: of abolition of, 122, on business men, economic conditions, 120, employment, 119, individual, 120, land-owners, 121, land values, 121-2, new industry, 119-20, wages, 119; interstate, 124; object of, 118, protective, 124  
Tariffs, between states, 123  
Tax, definition of, 166; only just, 164  
Taxation: effect of on land prices, 164; principles of, 166; in Rhode Island, 171, Rome, 170-1; true, equal, 164  
Taxes: direct, 166; indirect, 166-7; on improvements, 171; number of, on commodities, 167, wealth, 169; ability to pay, 170  
"Taxpayers," 150  
Teachers, services classified, 25  
Technological advances, in relation to unemployment, 75  
Tenancy, in U.S., 220-1  
Terms and definitions, 9-23  
Texas, oil royalties compared to state budget, 222  
Theories regarding cause of economic distress, 46-62  
Thrift: affecting general wages, 115, individual wages, 116; beneficial to individual, 116  
Title to land, 145  
Tolstoi, 161  
Trade: aided by transportation, 123; foreign, 123; motive for, 117

- Transportation, role in production of wealth, 16  
 True remedy, *see* Remedy  
 Twenty Wall Street, 221
- "Under-consumption" explained, 108
- Unemployment: causes of, 108, 130; causes not recognized by labor unions, 127-8; in relation to labor-saving machines, 74-5; reason for, 94, 108; three reasons for, listed and discussed, 92; unnatural, 61
- Unionized labor, 127
- Union leaders, 127
- Universe, divided into two parts, 8
- Unused land, effect of proposed change on, *see* Land
- Value: for value, in payment of site value, 164, 176; of land selling as affected by taxation, 164
- Wage fund theory, 18
- Wages, 18: affected by labor unions, 125-7; cause of low, 125, 163; defined, 21, 23; determined by product minus rent, 114; effect on of idle land, 78-9, speculation in land, 77; fixed by margin of cultivation, 118; fixing, 2; flour mill example, 19; general, 114; how fixed, 19-20; how to increase, 190; individual raising of, 114; in "protected industries," 119; law of, defined and explained, 30-1; not drawn from capital, 18-20; of aborigine, 18
- "Wages paid from capital" theory discussed, 47
- Waldorf Astoria Hotel, 116
- Wanamaker, 146
- War: causes, 57; effect of proposed change on, 199; as related to depressions, 97, production and prosperity, 98
- Washington, State of, *see* Mexico
- Watt, James, 71
- Wealth: can be produced without capital, 17; defined, 14, 23; distinguished from capital, 16; how obtained by primitive man, 15; national, compared to population, 56; nature of, 11-13; notes not, 12; primary factors in, production, purpose of, 21; role of exchange and transportation in production of, 16; saving, purpose of, 41; source of all, 8 used as capital, 15
- Wheat price pegging, by U.S. after World War I, *see* Price
- Work, necessary to obtain material things from land, 9
- "Workingman," *see* Man