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Final Exam: Teacher Training & Development Program 2014

Based on Progress & Poverty by Henry George

This is an open book exam based on Progress & Poverty by Henry George.

**1. Summarize the problem of poverty and the inequitable distribution of wealth as described by Henry George.**

The problem of poverty is not one of lack of progress, says George; there has been material progress aplenty. The inequitable distribution of wealth has to do with monopoly of Land (all of nature's resources, including location) by the few, necessitating the payment of rent from whatever surplus accrues to labor and capital, to the Landowner. Since Land is required for existence, there is no getting out of this obligation, nor of lessening it, if there exists no productive and free (i.e. non-monopolized) land. Further, the Landowner collects a large and continuing share of wealth without working at all, but just because he has a monopoly and can demand rent. This funnels wealth from the bottom to the top.

**2. Describe the terms: Wealth, Land, Labor, Capital as used by Henry George.**

- A. Wealth: Wealth consists of "natural products that have been secured, moved, combined, separated, or in other ways modified by human exertion to fit them for the gratification of human desires." In short, Wealth is man made. Wealth must also have exchange value with others, both to be commonly acceptable as wealth and to be able to be used to create more wealth (another part of the definition).
- B. Land: Land is all the resources created by nature – including actual land, minerals, air/water, and especially importantly, location.
- C. Labor: Labor is that effort which is produced by Man, including mental effort, to gratify his desires.
- D. Capital: Capital is the product of labor and land (and perhaps other past capital). Capital can be of many types, ranging from fixed capital (buildings, trucks, factories, etc.) to technical knowledge (Labor is involved in applying this knowledge). The store of capital applied to land and labor results in the further production of capital wealth. Capital allows labor to be employed with greater efficiency and productivity, through the use of technology and instruments and with increased human skill and knowledge. Unlike the other two factors of production, Land and Labor, Capital is not strictly necessary to produce something, e.g. it is possible to build a bridge across a river using just the available rocks, sticks, and mud (land) and one or more person's labor, albeit perhaps very difficult. Capital like steel beams and bulldozers make the job easier and the result sounder.
- Money is included under some definitions of capital (even those purporting to represent George's view), but George took great pains to show that money is not capital, but is a means of exchange and a store – however imperfect – of value.

### **3. What does Henry George believe are the two Axioms of human behavior upon which the laws of distribution are based?**

1. Man seeks to gratify his desires with the least exertion. (p. 12)

2. Man's desires are unlimited. (pp. 135-136)

To make sure that people get what they deserve, but no more than, we must ensure that:

A. Each person has an exclusive right to the results of his or her productive powers.

B. No one can claim to own land, since no one produced it. People do have rights to the productive opportunities that nature offers, which are here for our use, but the rights of each person are limited by the equal rights of all other persons.

### **4. Explain the Laws of Distribution: The Law of Rent; The Law of Wages; The Law of Interest, as used by Henry George. Include George's hypothesis on the cause of Interest.**

A: Law of Rent: The rent of land is determined by the excess of its produce over that which the same application can secure from the least productive land in use. (p. 168)

B. Law of wages: Wages depend upon the margin of production. That is, wages depend on the yield labor can obtain at the highest point of natural productiveness open to it without the payment of rent. (p. 213)

C. Law of Interest: The relation between wages and interest is determined by the average power of increase that attaches to capital from its use in reproductive modes. Depending on the margin of production, interest will fall as wages fall, or rise as wages rise.

**On the cause of Interest:** If interest rises above the equilibrium with wages, it produces two results: It will direct labor to produce capital. It will also direct wealth to be used as capital. Meanwhile, if wages rise above the equilibrium, that will also produce two results: Labor will turn away from producing capital. And the proportion of wealth used as capital will be reduced, as some will now be diverted to nonproductive uses. Thus, there is a certain relation between wages and interest, which changes slowly, if at all. Hence, interest must rise or fall with wages.

There must also be an allowance for risk in setting interest rates on capital. Interest does not depend on productivity of labor and capital, for interest is actually lower where productivity is highest. Interest rises as wages fall and vice versa.

"Interest springs from the power of increase which the reproductive forces of nature, and the in effect analogous capacity for exchange, give to capital. It is not arbitrary, but a natural thing; it is not the result of a particular social organization, but of the laws of the universe which underlie society. It is, therefore, just." P. 188 P&P.

### **5. Explain the effects of material progress on the production and distribution of wealth. This includes Inventions, innovations, and new discoveries; an increase in the general level of education; and additions to the infrastructure like roads, bridges, and public utilities.**

Material progress will have no positive effect on the distribution of wealth so long as

Land is monopolized. The use of all of these improvements depends upon the use of Land, and if Land is monopolized, it is the same as if society was in the most primitive state and only the hunting and gathering Land was monopolized and rent charged upon it. No innovation or discovery will change this relationship, save the collection of rent upon the Land for public use.

Monopoly of land will tend to dampen material progress by rewarding Land ownership over production, innovation and discovery. Education alone will do nothing to change this relationship.

**6. Explain why people speculate in land (hold it in an unused and under-used condition), and how that affects the production and distribution of wealth.**

Land is held out of use/underused so that it may be sold later by the landowner at a higher price than that which he paid for it originally. As long as the rent, created by common demand, is not collected, Land can be held indefinitely, even while the common demand for it increases (whether due to population increase or to general improvements). Land held out of use is, by definition, Land not being used for production. The imputed Land Rent is collected by the private Landowner instead of being distributed among those whose demand for Land increased its value, or who might use the Land more efficiently, if given the opportunity. The restriction of distribution of wealth to those few who have monopoly on Land will dampen production further.

**7. Explain the depression or recession cycle from Henry George's perspective, and list the three things that he believes tend to restore the previous levels of employment.**

Speculation in Land values lead to cuts in production and return to labor and capital. Although there are other proximate causes, the "great initiatory cause" is the speculative advance of land values (propelled by the instinct of Men to get the greatest return for the least amount of effort).

The three things that tend to restore the previous level of employment are:

- A. The speculative advance in rents is lost, or
- B. The increase in the efficiency of labor, owing to the growth of population and the progress of improvement, has enabled the normal rent line to overtake the speculative rent line (for a while, anyway), or
- C. Labor and capital have become reconciled to engaging in production for smaller returns.

Most probably all 3 of these factors would happen simultaneously. None of these stops the rent cycle for long, however, and the rent would eventually rise again, causing a new recession/depression.

**8. Give the justification for and the remedy proposed by Henry George.**

Collection of the rent on Land is fair and just because Land is produced by nature, not Man. Demand for Land comes naturally as population increases and possibly as improvements demand more of some kinds of Land (resources and location). There is

no need to collect the rent on Land on Robinson Crusoe Island...until another person sets foot on it and needs Land too. Each person then, has an equal right to the Land.

**9. Explain how collecting the rental value of land for public purpose will result in full employment, continually raise wages, and fund the increasing needs of society.**

The rental value of Land will increase as population increases. Collecting this rent will allow for general improvements and other public purposes in an increasingly complex society. Full employment and rising wages will result from the continual stream of improvements that will result from the efficient use of Land encouraged by the Land Value Tax, and from the removal of the deadweight loss of taxes on improvements and on labor. It is a mutually beneficial and continuously virtuous cycle.

**10. Explain how to determine the rental value of land.**

Rent is ultimately whatever the market will pay for use of a given bit of Land. It can also be expressed in the selling price, whereby the future rent is capitalized until such time as anticipated, that the Land will be resold. Rent is the share of the wealth, which is given for having exclusive rights to the Land. Note that the rental value of land does NOT depend on whether the rent is accrued to individuals or to society in general, at least in the immediate term (longer term, rental value will increase with new opportunities, as explained above). This is why *collecting* the Land Rent will not increase the *amount* of the Land Rent.

**11. Explain the difference between the effects of shifting taxes to the value of land in a single city o(r) state and collecting the rental value of land throughout the country.**

If a city or state collects the rental value of Land, while another does not, speculators may exit to the latter, while innovators and developers migrate to the former. To be most effective and constructive to society, therefore, the full rental value, or close to it, should be uniformly collected nationwide. This can be done, through successive layers, as was done under the original Articles of Confederation, Article 8, that taxed property first at the local level, than apportioned part of that to the State, and then a smaller part to the Federal government. Such a system would effectively end speculation on Land and the consequent boom/bust cycle, and increase opportunities for all, while eliminating most poverty.